APPLIED MATERIALS INC /DE
Form 10-Q
May 26, 2016
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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 May 1, 2016
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 May 1, 2016: 1,089,143,904

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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		Six Months Ended	
	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(Unaudited)			
Net sales	$2,450	$2,442	$4,707	$4,801
Cost of products sold	1,446	1,426	2,787	2,826
Gross profit	1,004	1,016	1,920	1,975
Operating expenses:				
Research, development and engineering	386	365	760	716
Marketing and selling	102	109	208	220
General and administrative	91	140	173	257
Gain on derivatives associated with terminated business combination	—	(14)	—	(92)
Total operating expenses	579	600	1,141	1,101
Income from operations	425	416	779	874
Interest expense	37	24	79	47
Interest and other income (loss), net	7	(3)	9	(1)
Income before income taxes	395	389	709	826
Provision for income taxes	75	25	103	114
Net income	$320	$364	$606	$712
Earnings per share:				
Basic	$0.29	$0.30	$0.54	$0.58
Diluted	$0.29	$0.29	$0.53	$0.57
Weighted average number of shares:				
Basic	1,113	1,230	1,130	1,227
Diluted	1,119	1,241	1,137	1,241

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		Six Months Ended	
	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(Unaudited)			
Net income	$320	$ 364	$606	$ 712
Other comprehensive loss, net of tax:				
Change in unrealized net gain on investments	3	(3)	4	(4)
Change in unrealized net loss on derivative instruments	(4)	(1)	(7)	—
Change in defined and postretirement benefit plans	—	(43)	—	(43)
Change in cumulative translation adjustments	—	(1)	—	(2)
Other comprehensive loss, net of tax	(1)	(48)	(3)	(49)
Comprehensive income	$319	$ 316	$603	$ 663

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	May 1, 2016	October 25, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$2,470	$ 4,797
Short-term investments	170	168
Accounts receivable, net of allowance for doubtful accounts of $48 at May 1, 2016 and $49 at October 25, 2015	1,913	1,739
Inventories	1,924	1,833
Other current assets	251	724
Total current assets	6,728	9,261
Long-term investments	934	946
Property, plant and equipment, net	904	892
Goodwill	3,304	3,302
Purchased technology and other intangible assets, net	668	762
Deferred income taxes and other assets	537	145
Total assets	$13,075	$ 15,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$—	$ 1,200
Accounts payable and accrued expenses	1,630	1,833
Customer deposits and deferred revenue	981	765
Total current liabilities	2,611	3,798
Long-term debt	3,343	3,342
Other liabilities	556	555
Total liabilities	6,510	7,695
Stockholders' equity:		
Common stock	11	11
Additional paid-in capital	6,669	6,575
Retained earnings	14,353	13,967
Treasury stock	(14,373)	(12,848)
Accumulated other comprehensive loss	(95)	(92)
Total stockholders' equity	6,565	7,613
Total liabilities and stockholders' equity	$13,075	$ 15,308

Amounts as of May 1, 2016 are unaudited. Amounts as of October 25, 2015 are derived from the October 25, 2015 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)

Six Months Ended May 1, 2016	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 25, 2015	1,160	$ 11	$ 6,575	$ 13,967	793	$ (12,848)	$ (92)	$ 7,613
Net income	—	—	—	606	—	—	—	606
Other comprehensive loss, net of tax	—	—	—	—	—	—	(3)	(3)
Dividends	—	—	—	(220)	—	—	—	(220)
Share-based compensation	—	—	102	—	—	—	—	102
Issuance under stock plans, net of a tax benefit of $13 and other	10	—	(8)	—	—	—	—	(8)
Common stock repurchases	(81)	—	—	—	81	(1,525)	—	(1,525)
Balance at May 1, 2016	1,089	$ 11	$ 6,669	$ 14,353	874	$ (14,373)	$ (95)	$ 6,565

Six Months Ended April 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	—	—	—	712	—	—	—	712
Other comprehensive loss, net of tax	—	—	—	—	—	—	(49)	(49)
Dividends	—	—	—	(246)	—	—	—	(246)
Share-based compensation	—	—	95	—	—	—	—	95
Issuance under stock plans, net of a tax benefit of $51 and other	11	—	(29)	—	—	—	—	(29)
Balance at April 26, 2015	1,232	$ 12	$ 6,450	$ 13,538	717	$ (11,524)	$ (125)	$ 8,351

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Six Months Ended	
	May 1, 2016	April 26, 2015
	(Unaudited)	
Cash flows from operating activities:		
Net income	$606	$712
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	192	182
Share-based compensation	102	95
Excess tax benefits from share-based compensation	(13)	(51)
Deferred income taxes	(7)	7
Other	15	21
Changes in operating assets and liabilities:		
Accounts receivable	(175)	(128)
Inventories	(92)	(146)
Other current and non-current assets	54	(147)
Accounts payable and accrued expenses	(255)	(95)
Customer deposits and deferred revenue	216	(66)
Income taxes payable	44	(44)
Other liabilities	1	18
Cash provided by operating activities	688	358
Cash flows from investing activities:		
Capital expenditures	(115)	(113)
Cash paid for acquisitions, net of cash acquired	(8)	—
Proceeds from sales and maturities of investments	473	317
Purchases of investments	(464)	(344)
Cash used in investing activities	(114)	(140)
Cash flows from financing activities:		
Debt repayments	(1,205)	—
Proceeds from common stock issuances	44	42
Common stock repurchases	(1,525)	—
Excess tax benefits from share-based compensation	13	51
Payments of dividends to stockholders	(228)	(245)
Cash used in financing activities	(2,901)	(152)
Effect of exchange rate changes on cash and cash equivalents	—	(1)
Increase (decrease) in cash and cash equivalents	(2,327)	65
Cash and cash equivalents — beginning of period	4,797	3,002
Cash and cash equivalents — end of period	$2,470	$3,067
Supplemental cash flow information:		
Cash payments for income taxes	$95	$207
Cash refunds from income taxes	$103	$5
Cash payments for interest	$76	$46

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 25, 2015 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 25, 2015 (2015 Form 10-K). Applied's results of operations for the three and six months ended May 1, 2016 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2016 and 2015 contain 53 weeks and 52 weeks, respectively, and the first half of fiscal 2016 and 2015 contained 27 weeks and 26 weeks, respectively.

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

Use of Estimates

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

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.

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

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued authoritative guidance that simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The authoritative guidance will be effective for Applied in the first quarter of fiscal 2018. 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 February 2016, the FASB issued authoritative guidance for lease accounting, which requires lessees to recognize lease assets and liabilities on the balance sheet for certain lease arrangements that are classified as operating leases under the previous standard, and to provide for enhanced disclosures. The authoritative guidance will be effective for Applied in the first quarter of fiscal 2020 and should be applied using a modified retrospective approach. Early adoption is permitted. Applied is currently evaluating the effect of this new guidance on Applied's consolidated financial statements.

In January 2016, the FASB issued authoritative guidance that requires equity investments that do not result in consolidation, and are not accounted for under the equity method, to be measured at fair value, and requires recognition of any changes in fair value in net income unless the investments qualify for a new practicability exception. For financial liabilities measured at fair value, the change in fair value caused by a change in instrument-specific credit risk will be required to be presented separately in other comprehensive income. The authoritative guidance will be effective for Applied in the first quarter of fiscal 2019. Early adoption is permitted only for the provisions related to the recognition of changes in fair value of financial liabilities caused by instrument-specific credit risk. Applied is currently evaluating the effect of this new guidance on Applied's consolidated financial statements.

In November 2015, the FASB issued authoritative guidance requiring all deferred tax assets and liabilities, and any related valuation allowance, to be classified as noncurrent on the balance sheet. Applied elected to prospectively adopt the authoritative guidance in the beginning of the first quarter of fiscal 2016. Prior periods were not retrospectively adjusted.

In July 2015, the 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. Applied will adopt this guidance in the first quarter of fiscal 2017 prospectively to all arrangements entered into or materially modified

after the effective date. The adoption of this guidance is not expected to have a significant impact on Applied's consolidated financial statements.

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.

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

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. Subsequent to the amendment, the FASB issued additional clarifying implementation guidance. 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.

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		Six Months Ended	
	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(In millions, except per share amounts)			
Numerator:				
Net income	$320	$ 364	$606	$ 712
Denominator:				
Weighted average common shares outstanding	1,113	1,230	1,130	1,227
Effect of dilutive stock options, restricted stock units and employee stock purchase plan shares	6	11	7	14
Denominator for diluted earnings per share	1,119	1,241	1,137	1,241
Basic earnings per share	$0.29	$ 0.30	$0.54	$ 0.58
Diluted earnings per share	$0.29	$ 0.29	$0.53	$ 0.57
Potentially dilutive securities	5	1	6	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.

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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:

May 1, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$1,313	$ —	$ —	$ 1,313
Cash equivalents:				
Money market funds	1,111	—	—	1,111
Municipal securities	18	—	—	18
Commercial paper, corporate bonds and medium-term notes	28	—	—	28
Total Cash equivalents	1,157	—	—	1,157
Total Cash and Cash equivalents	$2,470	$ —	$ —	$ 2,470
Short-term and long-term investments:				
U.S. Treasury and agency securities	$81	$ —	$ —	$ 81
Non-U.S. government securities*	9	—	—	9
Municipal securities	389	2	—	391
Commercial paper, corporate bonds and medium-term notes	234	1	—	235
Asset-backed and mortgage-backed securities	276	—	1	275
Total fixed income securities	989	3	1	991
Publicly traded equity securities	33	25	3	55
Equity investments in privately-held companies	58	—	—	58
Total short-term and long-term investments	$1,080	$ 28	$ 4	$ 1,104
Total Cash, Cash equivalents and Investments	$3,550	$ 28	$ 4	$ 3,574

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

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

October 25, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$1,010	$ —	$ —	$ 1,010
Cash equivalents:				
Money market funds	3,272	—	—	3,272
Non-U.S. government securities	60	—	—	60
Municipal securities	73	—	—	73
Commercial paper, corporate bonds and medium-term notes	382	—	—	382
Total Cash equivalents	3,787	—	—	3,787
Total Cash and Cash equivalents	$4,797	$ —	$ —	$ 4,797
Short-term and long-term investments:				
U.S. Treasury and agency securities	$84	$ —	$ —	$ 84
Non-U.S. government securities	9	—	—	9
Municipal securities	384	2	—	386
Commercial paper, corporate bonds and medium-term notes	250	—	—	250
Asset-backed and mortgage-backed securities	262	—	—	262
Total fixed income securities	989	2	—	991
Publicly traded equity securities	28	17	—	45
Equity investments in privately-held companies	78	—	—	78
Total short-term and long-term investments	$1,095	$ 19	$ —	$ 1,114
Total Cash, Cash equivalents and Investments	$5,892	$ 19	$ —	$ 5,911

Maturities of Investments

The following table summarizes the contractual maturities of Applied's investments at May 1, 2016:

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$152	$ 152
Due after one through five years	561	563
No single maturity date**	367	389
	$1,080	$ 1,104

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

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

Gains and Losses on Investments

During the three and six months ended May 1, 2016 and April 26, 2015, gross realized gains and losses on investments were not material.

At May 1, 2016 and October 25, 2015, 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 May 1, 2016 and April 26, 2015 were temporary in nature and therefore it did not recognize any impairment of its marketable securities during the three and six months ended May 1, 2016 or April 26, 2015. Impairment charges on equity investments in privately-held companies during the three and six months ended May 1, 2016 and April 26, 2015 were not material. 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 May 1, 2016, 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.

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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:

	May 1, 2016			October 25, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Money market funds	$1,111	$—	$1,111	$3,272	$—	$3,272
U.S. Treasury and agency securities	61	20	81	72	12	84
Non-U.S. government securities	—	9	9	—	69	69
Municipal securities	—	409	409	—	459	459
Commercial paper, corporate bonds and medium-term notes	—	263	263	—	632	632
Asset-backed and mortgage-backed securities	—	275	275	—	262	262
Publicly traded equity securities	55	—	55	45	—	45
Total	$1,227	$976	$2,203	$3,389	$1,434	$4,823

There were no transfers between Level 1 and Level 2 fair value measurements during the three and six months ended May 1, 2016 or April 26, 2015. Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements as of May 1, 2016 or October 25, 2015.

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 May 1, 2016, equity investments in privately-held companies totaled $58 million, of which $51 million of investments were accounted for under the cost method of accounting and $7 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 25, 2015, equity investments in privately-held companies totaled $78 million, of which $70 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. Impairment charges on equity investments in privately-held companies during the three and six months ended May 1, 2016 and April 26, 2015 were not material.

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 May 1, 2016, the carrying amount of long-term debt was $3.3 billion and the estimated fair value was $3.7 billion. At October 25, 2015, the carrying amount of long-term debt was $3.3 billion and the estimated fair value was $3.5 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 8 of the Notes to the Consolidated Condensed Financial Statements for further detail of existing debt.

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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 and Taiwanese dollar. 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.

During fiscal 2015, Applied entered into and settled 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 and settled in conjunction with the issuance of debt in September 2015. The loss from the settlement of the interest rate swap agreement that was included in accumulated other comprehensive income (AOCI) in stockholders' equity is being amortized to interest expense over the term of the senior unsecured 10-year notes issued in September 2015.

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 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 May 1, 2016 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 six months ended May 1, 2016 and April 26, 2015.

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.

In September 2013, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the then-anticipated business combination with Tokyo Electron Limited (TEL). These derivatives did not qualify for hedge accounting treatment and were marked to market at the end of each reporting period with gains and losses recorded as part of operating expenses. During the three and six months ended April 26, 2015, Applied recorded an unrealized gain of $14 million and $92 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. Due to the termination of the then-anticipated business combination with TEL on April 26, 2015, these foreign exchange

option contracts were sold during the third quarter of fiscal 2015.

The fair values of other foreign exchange derivative instruments at May 1, 2016 and October 25, 2015 were not material.

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

		Three Months Ended					
		May 1, 2016			April 26, 2015		
		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	$(17)	$ (9)	$ —	$ —	$ 5	$ (1)
Foreign exchange contracts	General and administrative	—	—	—	—	(4)	(1)
Interest rate swaps	Interest expense	—	—	—	—	—	—
Total		$(17)	$ (9)	$ —	$ —	$ 1	$ (2)

		Six Months Ended					
		May 1, 2016			April 26, 2015		
		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	$(23)	$	(8)	$	—	$5	$	13	$	(2)
Foreign exchange contracts	General and administrative	—		(1)		(1)	—		(8)		(1)
Interest rate swaps	Interest expense	—		(1)		—	—		—		—
Total		$(23)	$	(10)	$	(1)	$5	$	5	$	(3)

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		Amount of Gain or (Loss) Recognized in Income			
		Three Months Ended		Six Months Ended	
	Location of Gain or (Loss) Recognized in Income	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
		(In millions)			
Derivatives Not Designated as Hedging Instruments					
Foreign exchange contracts	Gain on derivatives associated with terminated business combination	$—	$ 14	$—	$ 92
Foreign exchange contracts	General and administrative	(32)	(1)	(36)	20
Total		$(32)	$ 13	$(36)	$ 112

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 May 1, 2016.

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.

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Note 6 Balance Sheet Detail

	May 1, 2016	October 25, 2015
	(In millions)	
Inventories		
Customer service spares	$412	$ 382
Raw materials	475	461
Work-in-process	337	271
Finished goods	700	719
	$1,924	$ 1,833

Included in finished goods inventory are $131 million at May 1, 2016, and $155 million at October 25, 2015, 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 $189 million and $185 million of evaluation inventory at May 1, 2016 and October 25, 2015, respectively.

	May 1, 2016	October 25, 2015
	(In millions)	
Other Current Assets		
Deferred income taxes, net[1]	$—	$ 403
Prepaid income taxes and income taxes receivable	72	127
Prepaid expenses and other	179	194
	$251	$ 724

[1] May 1, 2016 balance reflects the effects of the prospective adoption of the authoritative guidance in the first quarter of fiscal 2016, which required all deferred tax assets and liabilities, and any related valuation allowance to be classified as noncurrent on the balance sheet.

	Useful Life	May 1, 2016	October 25, 2015
	(In years)	(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		$157	$ 157
Buildings and improvements	3-30	1,249	1,247
Demonstration and manufacturing equipment	3-5	986	920
Furniture, fixtures and other equipment	3-15	567	574
Construction in progress		53	48
Gross property, plant and equipment		3,012	2,946
Accumulated depreciation		(2,108)	(2,054)
		$904	$ 892

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	May 1, 2016	October 25, 2015
	(In millions)	
Accounts Payable and Accrued Expenses		
Accounts payable	$644	$ 658
Compensation and employee benefits	361	509
Warranty	121	126
Dividends payable	109	116
Income taxes payable	46	60
Other accrued taxes	43	58
Interest payable	31	36
Other	275	270
	$1,630	$ 1,833

	May 1, 2016	October 25, 2015
	(In millions)	
Customer Deposits and Deferred Revenue		
Customer deposits	$306	$ 132
Deferred revenue	675	633
	$981	$ 765

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

	May 1, 2016	October 25, 2015
	(In millions)	
Other Liabilities		
Deferred income taxes	$14	$ 56
Income taxes payable	272	227
Defined and postretirement benefit plans	188	187
Other	82	85
	$556	$ 555

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Note 7 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.

As of May 1, 2016, Applied's reporting units include Transistor and Interconnect Group, Patterning and Packaging Group, and Imaging and Process Control Group, which combine to form the Silicon Systems reporting segment, Applied Global Services, Display and Energy and Environmental Solutions.

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 May 1, 2016 and October 25, 2015 were as follows:

	May 1, 2016			October 25, 2015		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In millions)					
Silicon Systems	$2,151	$ —	$2,151	$2,151	$ —	$2,151
Applied Global Services	1,029	5	1,034	1,027	5	1,032
Display	124	18	142	124	18	142
Energy and Environmental Solutions	—	2	2	—	2	2
Carrying amount	$3,304	$ 25	$3,329	$3,302	$ 25	$3,327

From time to time, Applied makes acquisitions of and investments in companies related to existing or new markets for Applied.

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.

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

	May 1, 2016	October 25, 2015
	(In millions)	
Purchased technology, net	$491	$ 575
Intangible assets - finite-lived, net	152	162
Intangible assets - indefinite-lived	25	25
Total	$668	$ 762

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:

	May 1, 2016			October 25, 2015		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Silicon Systems	$1,449	$ 252	$1,701	$1,449	$ 252	$1,701
Applied Global Services	28	44	72	28	44	72
Display	110	33	143	110	33	143
Energy and Environmental Solutions	4	12	16	4	12	16
Corporate	1	—	1	—	—	—
Gross carrying amount	$1,592	$ 341	$1,933	$1,591	$ 341	$1,932
Accumulated amortization:						

Silicon Systems	$(960)	$ (103)	$(1,063)	$(876)	$ (95)	$(971)
Applied Global Services	(27)	(44)	(71)	(26)	(44)	(70)
Display	(110)	(33)	(143)	(110)	(33)	(143)
Energy and Environmental Solutions	(4)	(9)	(13)	(4)	(7)	(11)
Accumulated amortization	$(1,101)	$ (189)	$(1,290)	$(1,016)	$ (179)	$(1,195)
Carrying amount	$491	$ 152	$643	$575	$ 162	$737

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Details of amortization expense by segment were as follows:

	Three Months Ended		Six Months Ended	
	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(In millions)			
Silicon Systems	$46	$ 44	$92	$ 87
Applied Global Services	—	—	1	1
Display	—	1	—	2
Energy and Environmental Solutions	1	1	2	2
Total	$47	$ 46	$95	$ 92

Amortization expense was charged to the following categories:

	Three Months Ended		Six Months Ended	
	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(In millions)			
Cost of products sold	$42	$ 40	$84	$ 80
Research, development and engineering	—	—	1	—
Marketing and selling	5	5	10	10
General and administrative	—	1	—	2
Total	$47	$ 46	$95	$ 92

As of May 1, 2016, future estimated amortization expense is expected to be as follows:

	Amortization Expense
	(In millions)
2016 (remaining 6 months)	$ 94
2017	187
2018	185
2019	44
2020	39
Thereafter	94
Total	$ 643

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Note 8 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 September 2020. This agreement provides for borrowings in United States dollars at interest rates keyed to one of various benchmark rates selected by Applied for each advance, plus a margin based on Applied's public debt rating and includes financial and other covenants. Remaining credit facilities in the amount of approximately $72 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 May 1, 2016 and October 25, 2015, and Applied has not utilized these credit facilities.

In September 2015, Applied issued senior unsecured notes in the aggregate principal amount of $1.8 billion and used a portion of the net proceeds to redeem $400 million in principal amount of its 2.650% senior notes due in 2016 at a redemption price of $405 million in November 2015. After adjusting for the carrying value of debt issuance costs and discounts, Applied recorded a $5 million loss on the prepayment of the $400 million debt, which is included in interest and other income, net in the Consolidated Condensed Statement of Operations for the first quarter of fiscal 2016.

In October 2015, a wholly-owned foreign subsidiary of Applied entered into a short-term loan agreement with multiple lenders, under which it borrowed $800 million to facilitate the return of capital to Applied. In January 2016, Applied repaid the $800 million aggregated principal amount of the loan.

Debt outstanding as of May 1, 2016 and October 25, 2015 was as follows:

	Principal Amount			
	May 1, 2016	October 25, 2015	Effective Interest Rate	Interest Pay Dates
	(In millions)			
Short-term debt:				
2.650% Senior Notes Due 2016	$ —	$ 400	2.666%	June 15, December 15
Other debt	—	800	1.0% - 1.25%	
Total short-term debt	—	1,200		
Long-term debt:				
7.125% Senior Notes Due 2017	200	200	7.190%	April 15, October 15
2.625% Senior Notes Due 2020	600	600	2.640%	April 1, October 1
4.300% Senior Notes Due 2021	750	750	4.326%	June 15, December 15
3.900% Senior Notes Due 2025	700	700	3.944%	April 1, October 1
5.100% Senior Notes Due 2035	500	500	5.127%	April 1, October 1
5.850% Senior Notes Due 2041	600	600	5.879%	

		June 15, December 15
	3,350	3,350
Total unamortized discount	(7)	(8)
Total long-term debt	3,343	3,342
Total debt	$ 3,343	$ 4,542

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Note 9 Stockholders' Equity, Comprehensive Income and Share-Based Compensation
Accumulated Other Comprehensive Income (Loss)
Changes in the components of AOCI, net of tax, were as follows:

	Unrealized Gain on Investments, Net	Unrealized Gain (Loss) on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
	(in millions)				
Balance at October 25, 2015	$14	$ (15)	$ (105)	$ 14	$(92)
Other comprehensive income (loss) before reclassifications	4	(14)	—	—	(10)
Amounts reclassified out of AOCI	—	7	—	—	7
Other comprehensive income (loss), net of tax	4	(7)	—	—	(3)
Balance at May 1, 2016	$18	$ (22)	$ (105)	$ 14	$(95)

	Unrealized Gain on Investments, Net	Unrealized Gain (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	(4)	3	(45)	(2)	(48)
Amounts reclassified out of AOCI	—	(3)	2	—	(1)
Other comprehensive income (loss), net of tax	(4)	—	(43)	(2)	(49)
Balance at April 26, 2015	$20	$ —	$ (148)	$ 3	$(125)

The effects on net income of amounts reclassified from AOCI for the three and six months ended May 1, 2016 and April 26, 2015 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 May 1, 2016, $150 million remained available for

future stock repurchases under this repurchase program.

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The following table summarizes Applied's stock repurchases for the three and six months ended May 1, 2016:

	Three Months Ended May 1, 2016	Six Months Ended May 1, 2016
	(in millions, except per share amount)	
Shares of common stock repurchased	45.1	80.5
Cost of stock repurchased	$900	$1,525
Average price paid per share	$19.93	$18.92

Applied did not purchase any shares of its common stock during the three and six months ended April 26, 2015.

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 March 2016 and December 2015, Applied's Board of Directors declared quarterly cash dividends in the amount of $0.10 per share. Dividends paid during the six months ended May 1, 2016 and April 26, 2015 totaled $228 million and $245 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 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 six months ended May 1, 2016 and April 26, 2015, 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:

	Three Months Ended	Six Months Ended

	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(In millions)			
Cost of products sold	$15	$ 14	$32	$ 29
Research, development, and engineering	18	17	38	35
Marketing and selling	6	7	13	13
General and administrative	9	9	19	18
Total share-based compensation	$48	$ 47	$102	$ 95

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.

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At May 1, 2016, Applied had $337 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 2.7 years. At May 1, 2016, there were 107 million shares available for grants of share-based awards under the Employee Stock Incentive Plan, and an additional 26 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 six months ended May 1, 2016 is presented below:

	Shares	Weighted Average Grant Date Fair Value
	(In millions, except per share amounts)	
Outstanding at October 25, 2015	27	$ 16.41
Granted	11	$ 18.27
Vested	(10)	$ 14.24
Canceled	(1)	$ 17.43
Outstanding at May 1, 2016	27	$ 17.94

At May 1, 2016, 1 million additional performance-based awards could be earned upon certain levels of achievement of Applied's total shareholder return relative to a peer group at a future date.

During the first quarter of fiscal 2016, 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 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 Plans

Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning or end of each 6-month purchase period, subject to certain limits. Applied issued 3 million shares during the three and six months ended May 1, 2016 and 2 million shares during the three and six months ended April 26, 2015. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. Underlying assumptions used in the model are outlined in the following table:

	Three and Six Months Ended

	May 1, 2016	April 26, 2015
ESPP:		
Dividend yield	2.07%	1.56%
Expected volatility	29.8%	31.4%
Risk-free interest rate	0.49%	0.07%
Expected life (in years)	0.5	0.5
Weighted average estimated fair value	$4.47	$6.04

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Note 10 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 for the three and six months ended May 1, 2016 and April 26, 2015 is presented below:

	Three Months Ended		Six Months Ended	
	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(In millions)			
Service cost	$4	$ 4	$7	$ 7
Interest cost	3	3	7	7
Expected return on plan assets	(4)	(4)	(8)	(8)
Amortization of actuarial loss	1	1	2	3
Curtailment and settlement gain	(1)	—	(5)	(1)
Net periodic benefit cost	$3	$ 4	$3	$ 8

Note 11 Income Taxes

Applied’s effective tax rates for the second quarters of fiscal 2016 and 2015 were 19.0 percent and 6.4 percent, respectively. Applied's effective tax rates for the first half of fiscal 2016 and 2015 were 14.5 percent and 13.8 percent, respectively. The effective tax rates for the second quarter and first half of fiscal 2015 included 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 second quarter and first half of fiscal 2015 was a decrease in provision for income taxes of $39 million and $35 million, respectively, which was determined to be immaterial on the originating periods and fiscal 2015. Accordingly, a restatement was not considered necessary. In addition, the effective tax rates for the second quarter and first half of fiscal 2015 included benefits from acquisition costs that became deductible as a result of the termination of the proposed business combination with TEL, and resolutions and changes related to income tax liabilities for prior years. As a result, the effective tax rates for the second quarter and first half of fiscal 2016 were higher than in the same periods in fiscal 2015. The higher effective tax rates in fiscal 2016 were partially offset by the benefit from changes in the geographical composition of income. The effective tax rates for the first half of fiscal 2016 and 2015 both included the benefit from the reinstatement of the U.S. federal research and development tax credit during these periods retroactive to its expiration in December of the prior years. During the next twelve months, it is reasonably possible that existing liabilities for unrecognized tax benefits could be reduced by up to $15 million as a result of the expiration of statutes of limitation.

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Note 12 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves are presented below:

	Three Months Ended		Six Months Ended	
	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(In millions)			
Beginning balance	$119	$ 119	$126	$ 113
Warranties issued	30	32	56	69
Change in reserves related to preexisting warranty	(5)	(1)	(16)	(2)
Consumption of reserves	(23)	(27)	(45)	(57)
Ending balance	$121	$ 123	$121	$ 123

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 May 1, 2016, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $57 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 May 1, 2016, Applied has provided parent guarantees to banks for approximately $100 million to cover these arrangements.

Legal Matters

Korea Criminal Proceedings

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

Supreme Court.

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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 13 Industry Segment Operations

Applied's four reportable segments are: Silicon Systems, 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 May 1, 2016 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 reportable 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.

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

	Three Months Ended		Six Months Ended	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
	(In millions)			
May 1, 2016:				
Silicon Systems	$1,587	$ 364	$2,960	$ 629
Applied Global Services	648	171	1,274	327
Display	167	29	380	67
Energy and Environmental Solutions	48	—	93	6
Total Segment	$2,450	$ 564	$4,707	$ 1,029
April 26, 2015:				
Silicon Systems	$1,560	$ 374	$3,006	$ 681
Applied Global Services	646	170	1,229	323
Display	163	40	438	112
Energy and Environmental Solutions	73	(5)	128	(9)
Total Segment	$2,442	$ 579	$4,801	$ 1,107

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

	Three Months Ended		Six Months Ended	
	May 1, 2016	April 26, 2015	May 1, 2016	April 26, 2015
	(In millions)			
Total segment operating income	$564	$ 579	$1,029	$1,107
Corporate and unallocated costs	(139)	(148)	(250)	(276)
Certain items associated with terminated business combination	—	(29)	—	(49)
Gain on derivatives associated with terminated business combination	—	14	—	92
Income from operations	$425	$ 416	$779	$874

The following customers accounted for at least 10 percent of Applied's net sales for the six months ended May 1, 2016, which were for products in multiple reportable segments.

	Percentage of Net Sales
Micron Technology, Inc.	12 %
Samsung Electronics Co., Ltd.	12 %

Intel Corporation	11	%

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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 May 1, 2016 should be read in conjunction with the financial statements for the fiscal year ended October 25, 2015 contained in the Company's Form 10-K filed December 9, 2015.

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, display, solar photovoltaic (PV) and related industries. Applied’s customers include manufacturers of semiconductor wafers and chips, 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, Applied Global Services, Display, and Energy and Environmental Solutions. A summary of financial information for each reportable segment is found in Note 13 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	
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
	(In millions, except per share amounts and percentages)				
New orders	$3,451	$ 2,275	$2,515	$1,176	$936
Net sales	$2,450	$ 2,257	$2,442	$193	$8
Gross profit	$1,004	$ 916	$1,016	$88	$(12)
Gross margin	41.0 %	40.6 %	41.6 %	0.4 points	(0.6) points
Operating income	$425	$ 354	$416	$71	$9
Operating margin	17.3 %	15.7 %	17.0 %	1.6 points	0.3 points
Net income	$320	$ 286	$364	$34	$(44)
Earnings per diluted share	$0.29	$ 0.25	$0.29	$0.04	$—
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross profit	$1,045	$ 957	$1,055	$88	$(10)
Non-GAAP adjusted gross margin	42.7 %	42.4 %	43.2 %	0.3 points	(0.5) points
Non-GAAP adjusted operating income	$470	$ 401	$476	$69	$(6)
Non-GAAP adjusted operating margin	19.2 %	17.8 %	19.5 %	1.4 points	(0.3) points
Non-GAAP adjusted net income	$376	$ 302	$362	$74	$14
Non-GAAP adjusted earnings per diluted share	$0.34	$ 0.26	$0.29	$0.08	$0.05

	Six Months Ended		Change
	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions, except per share amounts and percentages)		
New orders	$5,726	$4,788	$938
Net sales	$4,707	$4,801	$(94)
Gross profit	$1,920	$1,975	$(55)
Gross margin	40.8 %	41.1 %	(0.3) points
Operating income	$779	$874	$(95)

Operating margin	16.5	%	18.2	%	(1.7) points
Net income	$606		$712		$(106)
Earnings per diluted share	$0.53		$0.57		$(0.04)
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross profit	$2,002		$2,054		$(52)
Non-GAAP adjusted gross margin	42.5	%	42.8	%	(0.3) points
Non-GAAP adjusted operating income	$871		$923		$(52)
Non-GAAP adjusted operating margin	18.5	%	19.2	%	(0.7) points
Non-GAAP adjusted net income	$678		$700		$(22)
Non-GAAP adjusted earnings per diluted share	$0.60		$0.56		$0.04

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results." Fiscal 2016 and 2015 contains 53 weeks and 52 weeks, respectively, and the first six months of fiscal 2016 and 2015 contained 27 weeks and 26 weeks, respectively.

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Mobility, and the increasing technological functionality of mobile devices, continues to be a strong driver of semiconductor industry spending. During the first six months of fiscal 2016, memory manufacturers invested in technology upgrades and additional capacity while foundry customers invested to meet demand for advanced mobile chips. For the remainder of the year, Applied anticipates 3D NAND and advanced foundry and logic node spending will drive our semiconductor business. Mobility investments, including increasing investments in new technology, represents a significant driver of display industry spending, which has resulted in higher manufacturing capacity expansion for mobile applications. As a result, new orders for display equipment increased in the second quarter of fiscal 2016 compared to the prior quarter and the same period in the prior year, and Applied expects strong demand for mobile display manufacturing equipment for the remainder of fiscal 2016. 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.

Results of Operations

New Orders

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

	Three Months Ended						Change	
	May 1, 2016		January 31, 2016		April 26, 2015		Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
	(In millions, except percentages)							
Silicon Systems	$1,966	57%	$1,275	56%	$1,704	68%	54%	15%
Applied Global Services	677	20%	773	34%	641	25%	(12)%	6%
Display	700	20%	183	8%	120	5%	283%	483%
Energy and Environmental Solutions	108	3%	44	2%	50	2%	145%	116%
Total	$3,451	100%	$2,275	100%	$2,515	100%	52%	37%

	Six Months Ended				Change YTD Q2 2016 over YTD Q2 2015
	May 1, 2016		April 26, 2015		
	(In millions, except percentages)				
Silicon Systems	$ 3,241	57%	$ 3,130	65%	4%
Applied Global Services	1,450	25%	1,331	28%	9%
Display	883	15%	227	5%	289%
Energy and Environmental Solutions	152	3%	100	2%	52%
Total	$ 5,726	100%	$ 4,788	100%	20%

New orders for the second quarter of fiscal 2016 increased compared to the prior quarter primarily due to higher demand for semiconductor, display and solar equipment, partially offset by lower orders for semiconductor services, reflecting seasonally lower service contract renewals. New orders for the second quarter and first half of fiscal 2016

increased across all segments compared to the same periods in the prior year. New orders for the Silicon Systems and Applied Global Services segment continued to comprise the majority of Applied's consolidated total new orders.

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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	
	May 1, 2016		January 31, 2016		April 26, 2015		Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
	(In millions, except percentages)							
Taiwan	$445	13%	$534	23%	$589	23%	(17)%	(24)%
China	903	26%	502	22%	352	14%	80%	157%
Korea	792	23%	373	17%	607	24%	112%	30%
Japan	339	10%	109	5%	365	15%	211%	(7)%
Southeast Asia	392	11%	232	10%	103	4%	69%	281%
Asia Pacific	2,871	83%	1,750	77%	2,016	80%	64%	42%
United States	386	11%	369	16%	368	15%	5%	5%
Europe	194	6%	156	7%	131	5%	24%	48%
Total	$3,451	100%	$2,275	100%	$2,515	100%	52%	37%

	Six Months Ended				Change
	May 1, 2016		April 26, 2015		YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages)				
Taiwan	$979	17%	$1,134	24%	(14)%
China	1,405	25%	648	13%	117%
Korea	1,165	20%	1,153	24%	1%
Japan	448	8%	607	13%	(26)%
Southeast Asia	624	11%	188	4%	232%
Asia Pacific	4,621	81%	3,730	78%	24%
United States	755	13%	779	16%	(3)%
Europe	350	6%	279	6%	25%
Total	$5,726	100%	$4,788	100%	20%

The increases in new orders from customers in Korea, China, Japan and Southeast Asia in the second quarter of fiscal 2016 compared to the prior quarter primarily reflected increased demand from memory customers, while the decrease in new orders from customers in Taiwan reflected lower demand for memory and foundry equipment, partially offset by higher demand for display equipment. The increases in new orders from customers in Korea and Japan also reflected higher demand for display equipment. The increase in new orders from customers in Europe in the second quarter and first half of fiscal 2016 compared to the prior quarter and the same periods in the prior year was primarily due to higher demand from logic customers.

The increase in new orders from customers in China and Southeast Asia for the second quarter and first half of fiscal 2016 compared to the same periods in the prior year was primarily due to higher demand from memory customers. The increase in new orders from customers in Korea in the second quarter compared to the same period in the prior year primarily reflected higher demand for display equipment, partially offset by lower demand from memory and foundry customers. The decreases in new orders from customers in Taiwan and Japan for the second quarter and first

half of fiscal 2016 compared to the same periods in the prior year were due to lower demand from semiconductor equipment, partially offset by higher demand for display equipment.

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Changes in backlog during the six months ended May 1, 2016 were as follows:

	May 1, 2016 (In millions)
Beginning balance	$ 3,142
New orders	5,726
Net sales	(4,707)
Net adjustments	7
Ending balance	$ 4,168

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 73 percent of backlog as of the end of the second quarter of fiscal 2016 is anticipated to be shipped within the next two quarters. Backlog adjustments during the first six months of fiscal 2016 totaled $7 million, primarily consisting of favorable foreign currency impact, partially offset by order cancellations.

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

	May 1, 2016		January 31, 2016		October 25, 2015		Q2 2016 over Q1 2016	Q2 2016 over Q4 2015
	(In millions, except percentages)							
Silicon Systems	$2,044	49%	$1,602	51%	$1,720	55%	28%	19%
Applied Global Services	945	23%	928	30%	812	26%	2%	16%
Display	1,033	25%	495	16%	525	16%	109%	97%
Energy and Environmental Solutions	146	3%	84	3%	85	3%	74%	72%
Total	$4,168	100%	$3,109	100%	$3,142	100%	34%	33%

Total backlog in the second quarter of fiscal 2016 compared to the prior quarter increased primarily due to higher demand for semiconductor and display equipment. In the second quarter of fiscal 2016, approximately 62 percent of net sales in the Silicon Systems segment, Applied's largest business segment, were for orders received and shipped within the quarter, up from 60 percent in 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	
	May 1, 2016		January 31, 2016		April 26, 2015		Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
	(In millions, except percentages)							
Silicon Systems	$1,587	65%	$1,373	61%	$1,560	64%	16%	2%
Applied Global Services	648	26%	626	28%	646	26%	4%	—%
Display	167	7%	213	9%	163	7%	(22)%	2%
Energy and Environmental Solutions	48	2%	45	2%	73	3%	7%	(34)%
Total	$2,450	100%	$2,257	100%	$2,442	100%	9%	—%

	Six Months Ended				Change YTD Q2 2016 over YTD Q2 2015
	May 1, 2016		April 26, 2015		
	(In millions, except percentages)				
Silicon Systems Group	$ 2,960	63%	$ 3,006	63%	(2)%
Applied Global Services	1,274	27%	1,229	25%	4%
Display	380	8%	438	9%	(13)%
Energy and Environmental Solutions	93	2%	128	3%	(27)%
Total	$ 4,707	100%	$ 4,801	100%	(2)%

Net sales for the second quarter of fiscal 2016 increased compared to the prior quarter primarily due to increased investments in semiconductor equipment, partially offset by lower customer spending on display equipment. The Silicon Systems segment’s relative share of total net sales increased slightly compared to the prior quarter and remains the largest contributor of net sales.

For the second quarter of fiscal 2016 compared to the same period in the prior year, net sales remained relatively flat. Net sales for the first half of fiscal 2016 slightly decreased compared to the same period in the prior year, primarily due to lower customer spending on display semiconductor and solar equipment, partially offset by higher customer spending on semiconductor spares and services.

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

	Three Months Ended						Change	
	May 1, 2016		January 31, 2016		April 26, 2015		Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
	(In millions, except percentages)							
Taiwan	$ 311	13%	$ 637	28%	$ 461	19%	(51)%	(33)%

China	752	31%	495	22%	434	18%	52%	73%
Korea	506	21%	273	12%	536	22%	85%	(6)%
Japan	260	10%	334	15%	274	11%	(22)%	(5)%
Southeast Asia	252	10%	87	4%	96	4%	190%	163%
Asia Pacific	2,081	85%	1,826	81%	1,801	74%	14%	16%
United States	272	11%	293	13%	472	19%	(7)%	(42)%
Europe	97	4%	138	6%	169	7%	(30)%	(43)%
Total	$ 2,450	100%	$ 2,257	100%	$ 2,442	100%	9%	—%

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	Six Months Ended				Change
	May 1, 2016		April 26, 2015		YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages)				
Taiwan	$948	20%	$1,017	21%	(7)%
China	1,247	26%	844	18%	48%
Korea	779	17%	1,072	22%	(27)%
Japan	594	13%	517	11%	15%
Southeast Asia	339	7%	188	4%	80%
Asia Pacific	3,907	83%	3,638	76%	7%
United States	565	12%	841	17%	(33)%
Europe	235	5%	322	7%	(27)%
Total	$4,707	100%	$4,801	100%	(2)%

The increases in net sales from customers in China and Southeast Asia for the second quarter of fiscal 2016 compared to the prior quarter and the same period in the prior year, and the increase in net sales from customers in Korea for the second quarter of fiscal 2016 compared to the prior quarter, primarily reflected higher spending by memory customers. The decrease in net sales from customers in Taiwan for the second quarter of fiscal 2016 compared to the prior quarter and the same periods in the prior year reflected lower spending by foundry customers. The decrease in net sales from customers in Japan for the second quarter of fiscal 2016 compared to the prior quarter and the same period in the prior year primarily reflected lower spending by logic customers. The decrease in net sales from customers in Europe for the second quarter of fiscal 2016 compared to the prior quarter and the same period in the prior year was primarily due to lower customer spending on display and semiconductor equipment by customers in Europe.

The changes in net sales from customers in all regions in the first half of fiscal 2016 compared to the same period in the prior year primarily reflected changes in customers for semiconductor equipment. The increase in net sales from customers in China in the first half of fiscal 2016 compared to the same period in the prior year was partially offset by the lower spending from display customers.

Gross Margin

Gross margins for the periods indicated were as follows:

	Three Months Ended			Change		Six Months Ended		Change
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages)							
Gross profit	$1,004	$ 916	$1,016	$88	$ (12)	$1,920	$1,975	$ (55)
Gross margin	41.0 %	40.6 %	41.6 %	0.4 points	(0.6) points	40.8 %	41.1 %	(0.3) points
Non-GAAP Adjusted Results								
Non-GAAP adjusted gross profit	$1,045	$ 957	$1,055	$88	$ (10)	$2,002	$2,054	$ (52)
Non-GAAP adjusted gross margin	42.7 %	42.4 %	43.2 %			42.5 %	42.8 %	

0.3 points	(0.5) points	(0.3) points

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

Gross profit, non-GAAP adjusted gross profit, gross margin and non-GAAP adjusted gross margin in the second quarter of fiscal 2016 increased compared to the prior quarter, primarily reflecting higher net sales and favorable changes in product and customer mix. Gross profit, non-GAAP adjusted gross profit, gross margin and non-GAAP adjusted gross margin in the second quarter and first half of fiscal 2016 decreased compared to the same periods in the prior year, primarily due to unfavorable changes in product mix.

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Gross profit and non-GAAP adjusted gross profit during each of the three months ended May 1, 2016, January 31, 2016 and April 26, 2015 included $15 million, $17 million and $14 million, respectively, of share-based compensation expense. Gross profit and non-GAAP adjusted gross margin during the six months ended May 1, 2016 and April 26, 2015 included $32 million and $29 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		Six Months Ended		Change
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions)							
Research, development and engineering	$386	$ 374	$ 365	$12	$ 21	$760	$ 716	$ 44

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 slightly during the second quarter and first half of fiscal 2016 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 May 1, 2016, January 31, 2016 and April 26, 2015 included $18 million, $20 million and $17 million, respectively, of share-based compensation expense. RD&E expense during the six months ended May 1, 2016 and April 26, 2015 included $38 million and $35 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		Six Months Ended		Change
May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
(In millions)							

Marketing and selling	$102	$ 106	$ 109	$(4)	$ (7)	$208	$ 220	$ (12)

Marketing and selling expenses decreased slightly in the second quarter and first half of fiscal 2016 compared to the prior quarter and the same periods in the prior year due to continued cost management efforts. Marketing and selling expenses during the three months ended May 1, 2016, January 31, 2016 and April 26, 2015 included $6 million, $7 million and $7 million, respectively, of share-based compensation expense. Marketing and selling expenses during the six months ended May 1, 2016 and April 26, 2015 each included $13 million 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		Six Months Ended		Change
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions)							
General and administrative	$91	$ 82	$ 140	$9	$(49)	$173	$ 257	$ (84)

G&A expenses for the second quarter of fiscal 2016 increased compared to the prior quarter primarily due to higher variable compensation. G&A expenses for the second quarter and first half of fiscal 2016 decreased compared to the same periods in the prior year primarily due to lower acquisition-related and integration costs related to the terminated business combination with Tokyo Electron Limited (TEL) and change in foreign currency impact.

G&A expenses during the three months ended May 1, 2016, January 31, 2016 and April 26, 2015 included $9 million, $10 million and $9 million of share-based compensation expense, respectively. G&A expenses during the six months ended May 1, 2016 and April 26, 2015 included $19 million and $18 million, respectively, of share-based compensation expense.

Gain on Derivatives Associated with Terminated Business Combination

During the three and six months ended April 26, 2015, Applied recorded an unrealized gain of $14 million and $92 million, respectively, on the foreign exchanges option contracts associated with the then-anticipated business combination with TEL. Due to the termination of the then-anticipated 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.

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

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

	Three Months Ended			Change		Six Months Ended		Change
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions)							
Interest expense	$37	$ 42	$ 24	$(5)	$ 13	$79	$ 47	$ 32
Interest and other income (loss), net	$7	$ 2	$ (3)	$5	$ 10	$9	$ (1)	$ 10

Interest expenses incurred were primarily associated with the senior unsecured notes issued in June 2011 and September 2015. Interest expense decreased in the second quarter of fiscal 2016 compared to the prior quarter primarily due to the repayment of an $800 million short-term loan in the first quarter of fiscal 2016. Interest expense increased in the second quarter and the first half of fiscal 2016 compared to the same periods in the prior year

primarily due to the issuance of senior unsecured notes in September 2015.

Interest and other income, net included a $5 million loss from redemption of $400 million in principal amount of senior unsecured notes recorded in the first quarter and first half of fiscal 2016. Interest and other income, net in the second quarter and first half of fiscal 2016 compared to the same period in the prior year increased primarily due to lower impairment of strategic investments net of realized gain and higher interest income from investments.

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Income Taxes

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

	Three Months Ended			Change		Six Months Ended		Change
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages)							
Provision for income taxes	$75	$ 28	$ 25	$47	$ 50	$103	$ 114	$ (11)
Effective tax rate	19.0%	8.9 %	6.4 %	10.1 points	12.6 points	14.5 %	13.8 %	0.7 points

Applied's provision for income taxes and effective tax rate are affected by the geographical composition of pre-tax income which includes jurisdictions with differing tax rates, income tax holidays and other income tax incentives. It is also affected by events that are not consistent from period to period, such as changes in income tax laws and the resolution of income tax filings.

The effective tax rate for the second quarter of fiscal 2016 was higher than in the prior quarter primarily due to the benefit from reinstatement of the U.S. federal research and development tax credit during the first quarter of fiscal 2016 which was retroactive to its expiration in December 2014 and resolutions and changes related to income tax liabilities for prior years, partially offset by the benefit from changes in the geographical composition of income.

The effective tax rates for the second quarter and first half of fiscal 2015 included 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 second quarter and first half of fiscal 2015 was a decrease in provision for income taxes of $39 million and $35 million, respectively, which was determined to be immaterial on the originating periods and fiscal 2015. Accordingly, a restatement was not considered necessary. In addition, the effective tax rates for the second quarter and first half of fiscal 2015 included benefits from acquisition costs that became deductible as a result of the termination of the proposed business combination with TEL, and resolutions and changes related to income tax liabilities for prior years. As a result, the effective tax rates for the second quarter and first half of fiscal 2016 were higher than in the same periods in fiscal 2015. The higher effective tax rates in fiscal 2016 were partially offset by the benefit from changes in the geographical composition of income. The effective tax rates for the first half of fiscal 2016 and 2015 both included the benefit from the reinstatement of the U.S. federal research and development tax credit during these periods retroactive to its expiration in December of the prior years.

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Segment Information

Applied reports financial results in four segments: Silicon Systems, 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 13 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 Segment

The Silicon Systems 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, interconnect, patterning 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.

The competitive environment for Silicon Systems in the first six months of fiscal 2016 reflected steady investment by semiconductor manufacturers. Memory manufacturers invested in technology upgrades and additional capacity. Foundry customers invested to meet demand for advanced mobile chips.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016		Q2 2016 over Q2 2015	
	(In millions, except percentages and ratios)						
New orders	$1,966	$ 1,275	$1,704	$691	54%	$262	15%
Net sales	1,587	1,373	1,560	214	16%	27	2%
Book to bill ratio	1.2	0.9	1.1				
Operating income	364	265	374	99	37%	(10)	(3)%
Operating margin	22.9%	19.3%	24.0%		3.6 points		(1.1) points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$410	$ 312	$418	98	31%	(8)	(2)%
Non-GAAP adjusted operating margin	25.8%	22.7%	26.8%		3.1 points		(1.0) points

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	Six Months Ended		Change
	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages and ratios)		
New orders	$3,241	$3,130	$111 4%
Net sales	2,960	3,006	(46) (2)%
Book to bill ratio	1.1	1.0	
Operating income	629	681	(52) (8)%
Operating margin	21.3 %	22.7 %	(1.4) points
Non-GAAP Adjusted Results			
Non-GAAP adjusted operating income	$722	$768	(46) (6)%
Non-GAAP adjusted operating margin	24.4 %	25.5 %	(1.1) points

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

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

	Three Months Ended			Six Months Ended	
	May 1, 2016	January 31, 2016	April 26, 2015	May 1, 2016	April 26, 2015
Foundry	23%	38%	36%	29%	35%
Memory	66%	51%	52%	60%	52%
Logic and other	11%	11%	12%	11%	13%
	100%	100%	100%	100%	100%

New orders for the second quarter of fiscal 2016 increased compared to the prior quarter and to the same period in the prior year primarily due to higher demand from memory and logic customers, partially offset by lower demand from foundry customers. Net sales for the second quarter of fiscal 2016 increased compared to the prior quarter and to the same period in the prior year primarily due to higher spending from memory customers. Approximately 62 percent of net sales in the second quarter of fiscal 2016 were for orders received and shipped within the quarter. The increase in the operating income, non-GAAP adjusted operating income, operating margin and non-GAAP adjusted operating margin for the second quarter of fiscal 2016 compared to the prior quarter was driven by favorable change in product mix. The decrease in the operating income, non-GAAP adjusted operating income, operating margin and non-GAAP adjusted operating margin for the second quarter of fiscal 2016 compared to the same period in the prior year was due to higher research and development costs. In the second quarter of fiscal 2016, three customers accounted for approximately 61 percent of this segment's total new orders and five customers accounted for approximately 71 percent of this segment's total net sales.

New orders for the first half of fiscal 2016 increased compared to the same period in the prior year primarily due to increased demand from memory customers, partially offset by lower demand from foundry and logic customers. Net sales for the first half of fiscal 2016 slightly decreased compared to the same period in the prior period primarily due to lower spending from foundry customers, partially offset by higher spending from memory customers. Operating income, non-GAAP adjusted operating income, operating margin and non-GAAP adjusted operating margin decreased in the first half of fiscal 2016 compared to the same period in the prior year, primarily reflecting the decrease in net sales and higher research and development costs.

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

	Three Months Ended			Change	
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
	(In millions, except percentages)				
China	$588 37%	$213 16%	$197 13%	176%	198%
Korea	$352 22%	$205 15%	$466 30%	72%	(24)%
Taiwan	$169 11%	$502 37%	$311 20%	(66)%	(46)%

	Six Months Ended		Change
	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages)		
China	$801 27%	$276 9%	190%
Taiwan	$671 23%	$732 24%	(8)%
Korea	$557 19%	$907 30%	(39)%

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 six months of fiscal 2016 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			
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016		Q2 2016 over Q2 2015	
	(In millions, except percentages and ratios)						
New orders	$677	$ 773	$ 641	$(96)	(12)%	$36	6%
Net sales	648	626	646	22	4%	2	—%
Book to bill ratio	1.0	1.2	1.0				
Operating income	171	156	170	15	10%	1	1%
Operating margin	26.4 %	24.9 %	26.3 %		1.5 points		0.1 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	171	156	170	15	10%	1	1%
Non-GAAP adjusted operating margin	26.4 %	24.9 %	26.3 %		1.5 points		0.1 points

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	Six Months Ended		Change	
	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015	
	(In millions, except percentages and ratios)			
New orders	$1,450	$1,331	$119	9%
Net sales	1,274	1,229	45	4%
Book to bill ratio	1.1	1.1		
Operating income	327	323	4	1%
Operating margin	25.7 %	26.3 %		(0.6) points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income	$327	$324	3	1%
Non-GAAP adjusted operating margin	25.7 %	26.4 %		(0.7) points

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

New orders for the second quarter of fiscal 2016 decreased compared to the prior quarter primarily due to service contract renewals being seasonally higher in the first quarter, partially offset by higher demand for semiconductor spares. Net sales for the second quarter of fiscal 2016 compared to the prior quarter slightly increased primarily due to higher spending on semiconductor spares as well as investment in 200mm equipment systems and mask equipment. Operating income, operating margin, non-GAAP adjusted operating income and non-GAAP adjusted operating margin for the second quarter of fiscal 2016 increased compared to the prior quarter primarily due to higher net sales and utilization rates.

New orders and net sales for the second quarter and first half of fiscal 2016 increased compared to the same periods in the prior year due to higher demand and spending for semiconductor services, partially offset by lower demand and investment in 200mm equipment systems. Operating income and non-GAAP adjusted operating income, operating margin and non-GAAP adjusted operating margin for the second quarter of fiscal 2016 compared to the same period in the prior year remained flat. Operating margin and non-GAAP adjusted operating margin in the first half of fiscal 2016 decreased compared to the same period in the prior year, despite the increase in net sales, primarily due to increased headcount to support business growth.

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; emerging markets such as OLED, low temperature polysilicon (LTPS), metal oxide, and touch panel sectors; and development of products that provide customers with improved performance and yields. Display industry growth depends primarily on consumer demand for increasingly larger and more advanced TVs as well as larger and higher resolution displays for next generation mobile devices, including OLED. The market environment for Applied's Display segment in the first six months of fiscal 2016 has been characterized by increasing demand for manufacturing equipment for high-end mobile devices and continued demand for TV manufacturing equipment, 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.

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Certain significant measures for the periods presented were as follows:

	Three Months Ended			Change			
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016		Q2 2016 over Q2 2015	
	(In millions, except percentages and ratios)						
New orders	$700	$ 183	$ 120	$517	283%	$580	483%
Net sales	167	213	163	(46)	(22)%	4	2%
Book to bill ratio	4.2	0.9	0.7				
Operating income	29	38	40	(9)	(24)%	(11)	(28)%
Operating margin	17.4 %	17.8 %	24.5 %		(0.4) points		(7.1) points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$29	$ 38	$ 40	(9)	(24)%	(11)	(28)%
Non-GAAP adjusted operating margin	17.4 %	17.8 %	24.5 %		(0.4) points		(7.1) points

	Six Months Ended		Change	
	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015	
	(In millions, except percentages and ratios)			
New orders	$883	$ 227	$656	289%
Net sales	380	438	(58)	(13)%
Book to bill ratio	2.3	0.5		
Operating income	67	112	(45)	(40)%
Operating margin	17.6 %	25.6 %		(8.0) points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income	$67	$ 113	(46)	(41)%
Non-GAAP adjusted operating margin	17.6 %	25.8 %		(8.2) points

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

New orders for the second quarter and first half of fiscal 2016 increased compared to the prior quarter and the same periods in the prior year primarily due to demand for new mobile display products during the quarter, as well as increased orders for mobile display and TV manufacturing equipment. Net sales for the second quarter of fiscal 2016 were lower compared to the prior quarter which reflected lower level of orders received in the prior quarters. 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 lower net sales. Three customers accounted for approximately 76 percent of new orders for this segment during the second quarter of fiscal 2016, with one customer accounting for approximately 41 percent of new orders. Two customers accounted for approximately 73 percent of net sales for the Display segment in the second quarter of fiscal 2016, with one customer accounting for approximately 60 percent of net sales.

Net sales for the second quarter of fiscal 2016 was essentially flat compared to the same period in the prior year. Net sales for the first half of fiscal 2016 decreased compared to the same period in the prior year due to lower shipments of TV manufacturing equipment. Operating income, operating margin, non-GAAP adjusted operating income and non-GAAP adjusted operating margin for the second quarter and first half of fiscal 2016 decreased compared to the

same periods in the prior year, reflecting unfavorable product mix and higher research and development cost for new product development.

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The following regions accounted for at least 30 percent of total net sales for the Display segment for one or more of the periods presented:

	Three Months Ended			Change	
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
	(In millions, except percentages)				
China	$43 26%	$170 80%	$138 85%	(75)%	(69)%
Korea	$101 60%	$7 3%	$16 10%	N/A	531%

	Six Months Ended		Change
	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages)		
China	$213 56%	$377 86%	(44)%
Korea	$107 28%	$56 13%	91%

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. 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 presented were as follows:

	Three Months Ended			Change			
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016		Q2 2016 over Q2 2015	
	(In millions, except percentages and ratios)						
New orders	$108	$ 44	$ 50	$64	145%	$58	116%
Net sales	48	45	73	3	7%	(25)	(34)%
Book to bill ratio	2.3	1.0	0.7				
Operating income (loss)	—	6	(5)	(6)	(100)%	5	100%
Operating margin	— %	13.3 %	(6.8)%		(13.3) points		6.8 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income (loss)	(1)	4	(4)	(5)	(125)%	3	75%
Non-GAAP adjusted operating margin	(2.1)%	8.9 %	(5.5)%		(11.0) points		3.4 points

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	Six Months Ended		Change
	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages and ratios)		
New orders	$152	$100	$52 52%
Net sales	93	128	(35) (27)%
Book to bill ratio	1.6	0.8	
Operating income (loss)	6	(9)	15 167%
Operating margin	6.5%	(7.0)%	13.5 points
Non-GAAP Adjusted Results			
Non-GAAP adjusted operating income (loss)	$3	$(7)	10 143%
Non-GAAP adjusted operating margin	3.2%	(5.5)%	8.7 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. The changes in operating margin and non-GAAP adjusted operating margin during the periods presented were primarily driven by changes in product mix. Four customers accounted for approximately 64 percent of new orders during the second quarter of fiscal 2016. Three customers accounted for approximately 57 percent of net sales for this segment during the second quarter of fiscal 2016.
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	
	May 1, 2016	January 31, 2016	April 26, 2015	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
	(In millions, except percentages)				
China	$29 60%	$40 89%	$24 33%	(28)%	21%

	Six Months Ended		Change
	May 1, 2016	April 26, 2015	YTD Q2 2016 over YTD Q2 2015
	(In millions, except percentages)		
China	$69 74%	$54 42%	28%

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Financial Condition, Liquidity and Capital Resources

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

	May 1, 2016	October 25, 2015
	(In millions)	
Cash and cash equivalents	$2,470	$ 4,797
Short-term investments	170	168
Long-term investments	934	946
Total cash, cash-equivalents and investments	$3,574	$ 5,911

Sources and Uses of Cash

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

	Six Months Ended	
	May 1, 2016	April 26, 2015
	(In millions)	
Cash provided by operating activities	$688	$358
Cash used in investing activities	$(114)	$(140)
Cash used in financing activities	$(2,901)	$(152)

Operating Activities

Cash from operating activities for the six months ended May 1, 2016 was $688 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. The primary drivers of cash from operating activities during the first half of fiscal 2016 included higher net income and increases in customer deposits and deferred revenue, partially offset by increases in accounts receivable and inventory and decreases in accounts payable and accrued expenses due to variable compensation and accounts payable payments.

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 discount promissory notes or utilize programs to discount letters of credit issued by customers or factored any accounts receivable during the six months ended May 1, 2016 or April 26, 2015.

Applied’s working capital was $4.1 billion at May 1, 2016 and $5.5 billion at October 25, 2015. Applied’s working capital at May 1, 2016 includes the effects of the adoption of the authoritative guidance requiring all deferred tax assets and liabilities, and any related valuation allowance, to be classified as noncurrent on the balance sheet. Prior periods were not retrospectively adjusted.

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

	May 1, 2016	January 31, 2016	April 26, 2015
Days sales outstanding	71	71	67
Days inventory outstanding	121	134	109
Days payable outstanding	41	40	41

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Days sales outstanding varies due to the timing of shipments and payment terms. Days sales outstanding remained flat in the second quarter of fiscal 2016 compared to the prior quarter primarily due to increased revenue and unfavorable linearity, offset by an additional week in the prior quarter. Days inventory outstanding decreased during the second quarter of fiscal 2016 compared to the prior quarter primarily due to an additional week in the prior quarter and higher cost of products sold. The increase in days inventory outstanding during the current quarter compared to the same period in the prior year also reflected higher inventory balances at the end of the second quarter of fiscal 2016 due to higher expected future business volume. Days payable outstanding increased slightly during the second quarter of fiscal 2016 compared to the prior quarter primarily reflecting higher accounts payable balances at the end of the current quarter, partially offset by an additional week during the prior quarter.

Investing Activities

Applied used $114 million of cash in investing activities during the six months ended May 1, 2016. Proceeds from sales and maturities of investments, net of purchases of investments, totaled $9 million and capital expenditures were $115 million during the six months ended May 1, 2016.

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 six months ended May 1, 2016, Applied did not recognize any impairment of its fixed income or publicly traded equity securities. At May 1, 2016, gross unrealized losses related to Applied's investment portfolio were not material.

Financing Activities

Applied used cash for financing activities in the amount of $2.9 billion during the six months ended May 1, 2016, consisting primarily of $1.2 billion in debt repayments, $1.5 billion in repurchases of common stock, and $228 million in cash dividends to stockholders, offset by excess tax benefits from share-based compensation of $13 million and proceeds from common stock issuances of $44 million.

In March 2016 and December 2015, 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 September 2020. 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 May 1, 2016. Remaining credit facilities in the amount of approximately $72 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 May 1, 2016 and October 25, 2015, 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 May 1, 2016, 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 $3.4 billion outstanding as of May 1, 2016. The indentures governing these notes include covenants with which Applied was in compliance at May 1, 2016. See Note 8 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 May 1, 2016, the

maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $57 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 May 1, 2016, Applied Materials, Inc. has provided parent guarantees to banks for approximately $100 million to cover these arrangements.

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Others

During the three and six months ended May 1, 2016, Applied did not record a bad debt provision. While Applied believes that its allowance for doubtful accounts at May 1, 2016 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

As of May 1, 2016, approximately $2.4 billion of cash, cash equivalents and marketable securities held by non-U.S. subsidiaries may be subject to U.S. taxes if repatriated for U.S. operations. Of this amount, Applied intends to indefinitely reinvest approximately $1.9 billion of these funds outside of the U.S. and does not plan to repatriate these funds. Applied would need to accrue and pay U.S. taxes if these funds were repatriated. For the remaining cash, cash equivalents and marketable securities held by non-U.S. 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.

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. If the carrying value of a reporting unit exceeds its estimated fair value, Applied would then perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. If Applied determines that the carrying value of a reporting unit’s goodwill exceeds its implied fair value, Applied would record an impairment charge equal to the difference.

Applied determines the fair value of each reporting unit based on a weighting of an income and a market approach. Applied bases the fair value estimates on assumptions that it believes to be reasonable but that are unpredictable and inherently uncertain. Under the income approach, Applied estimates the fair value based on discounted cash flow method.

The estimates used in the impairment testing are consistent with the discrete forecasts that Applied uses to manage its business, and considers any significant developments during the period. Under the discounted cash flow method, cash flows beyond the discrete forecasts are estimated using a terminal growth rate, which considers the long-term earnings growth rate specific to the reporting units. The estimated future cash flows are 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 is derived using both known and estimated market metrics, and is adjusted to reflect both the timing and risks associated with the estimated cash flows. The tax rate used in the discounted cash flow method is the median tax rate of comparable companies and reflects Applied's current international structure, which is consistent with the market participant perspective. Under the market approach, Applied uses the guideline company method which applies market multiples to forecasted revenues and earnings before interest, taxes, depreciation and amortization. Applied uses market multiples that are consistent with comparable publicly-traded companies and considers each reporting unit's size, growth and profitability relative to its comparable companies.

Management uses significant judgment when assessing goodwill for potential impairment, especially in emerging markets. Indicators of potential impairment include, but are not limited to, challenging economic conditions, an unfavorable industry or economic environment or other severe decline in market conditions. Such conditions could have the effect of changing one of the critical assumptions or estimates used for the fair value calculation, resulting in an unexpected goodwill impairment charge, which could have a material adverse effect on Applied’s business, financial condition and results of operations.

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Income Taxes

Applied's effective tax rate is affected by the geographical composition of income and income tax laws and regulations in multiple jurisdictions.

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

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

Non-GAAP Adjusted Results

Management uses non-GAAP adjusted results to evaluate operating and financial performance in light of business objectives and for planning purposes. Applied believes these measures enhance investors' ability to review the Company's business from the same perspective as management and facilitate comparisons of this period's results with prior periods. The non-GAAP adjusted results presented below exclude the impact of the following, where applicable: certain items related to acquisitions; restructuring charges and any associated adjustments; impairments of assets, goodwill, or investments; gain or loss on sale of strategic investments or facilities; 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.

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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			Six Months Ended	
	May 1, 2016	January 31, 2016	April 26, 2015	May 1, 2016	April 26, 2015
Non-GAAP Adjusted Gross Profit					
Reported gross profit - GAAP basis	$1,004	$ 916	$1,016	$1,920	$1,975
Certain items associated with acquisitions[1]	41	42	39	83	79
Reversals related to restructuring, net[4]	—	(1)	—	(1)	—
Non-GAAP adjusted gross profit	$1,045	$ 957	$1,055	$2,002	$2,054
Non-GAAP adjusted gross margin	42.7 %	42.4 %	43.2 %	42.5 %	42.8 %
Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$425	$ 354	$416	$779	$874
Certain items associated with acquisitions[1]	46	48	45	94	91
Acquisition integration costs	—	—	—	—	1
Gain on derivatives associated with terminated business combination, net	—	—	(14)	—	(92)
Certain items associated with terminated business combination[2]	—	—	29	—	49
Reversals related to restructuring, net[3,4]	(1)	(1)	—	(2)	—
Non-GAAP adjusted operating income	$470	$ 401	$476	$871	$923
Non-GAAP adjusted operating margin	19.2 %	17.8 %	19.5 %	18.5 %	19.2 %
Non-GAAP Adjusted Net Income					
Reported net income - GAAP basis[5]	$320	$ 286	$364	$606	$712
Certain items associated with acquisitions[1]	46	48	45	94	91
Acquisition integration costs	—	—	—	—	1
Gain on derivatives associated with terminated business combination, net	—	—	(14)	—	(92)
Certain items associated with terminated business combination[2]	—	—	29	—	49
Reversals related to restructuring, net[3,4]	(1)	(1)	—	(2)	—
Impairment (gain on sale) of strategic investments, net	(1)	(2)	6	(3)	7
Loss on early extinguishment of debt	—	5	—	5	—
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items[5]	16	(29)	(54)	(13)	(71)
Income tax effect of non-GAAP adjustments	(4)	(5)	(14)	(9)	3
Non-GAAP adjusted net income	$376	$ 302	$362	$678	$700

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 months ended May 1, 2016 included a $1 million favorable adjustment of employee-related costs associated with the cost reductions in the solar business.

4 Results for the three months ended January 31, 2016 included a $1 million benefit from sales of solar equipment tools for which inventory had been previously reserved related to the cost reductions in the solar business.

5 Amounts for three and six months ended April 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			Six Months Ended	
	May 1, 2016	January 31, 2016	April 26, 2015	May 1, 2016	April 26, 2015
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings per diluted share - GAAP basis[1]	$0.29	$ 0.25	$ 0.29	$0.53	$ 0.57
Certain items associated with acquisitions	0.04	0.04	0.03	0.08	0.07
Certain items associated with terminated business combination	—	—	0.02	—	0.03
Gain on derivative associated with terminated business combination, net	—	—	(0.01)	—	(0.05)
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items[1]	0.01	(0.03)	(0.04)	(0.01)	(0.06)
Non-GAAP adjusted earnings per diluted share	0.34	0.26	0.29	0.60	0.56
Weighted average number of diluted shares	1,119	1,154	1,241	1,137	1,241

1 Amounts for three and six months ended April 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			Six Months Ended	
	May 1, 2016	January 31, 2016	April 26, 2015	May 1, 2016	April 26, 2015
Silicon Systems Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$364	$ 265	$374	$629	$681
Certain items associated with acquisitions[1]	46	47	44	93	87
Non-GAAP adjusted operating income	$410	$ 312	$418	$722	$768
Non-GAAP adjusted operating margin	25.8 %	22.7 %	26.8 %	24.4 %	25.5 %
AGS Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$171	$ 156	$170	$327	$323
Certain items associated with acquisitions[1]	—	—	—	—	1
Non-GAAP adjusted operating income	$171	$ 156	$170	$327	$324
Non-GAAP adjusted operating margin	26.4 %	24.9 %	26.3 %	25.7 %	26.4 %
Display Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$29	$ 38	$40	$67	$112
Certain items associated with acquisitions[1]	—	—	—	—	1
Non-GAAP adjusted operating income	$29	$ 38	$40	$67	$113
Non-GAAP adjusted operating margin	17.4 %	17.8 %	24.5 %	17.6 %	25.8 %
EES Non-GAAP Adjusted Operating Income (Loss)					
Reported operating income (loss) - GAAP basis	$—	$ 6	$(5)	$6	$(9)
Certain items associated with acquisitions[1]	—	1	1	1	2
Reversals related to restructuring, net[2]	(1)	(3)	—	(4)	—
Non-GAAP adjusted operating income (loss)	$(1)	$ 4	$(4)	$3	$(7)
Non-GAAP adjusted operating margin	(2.1)%	8.9 %	(5.5)%	3.2 %	(5.5)%

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

2 Results for the three months ended May 1, 2016 and January 31, 2016 and six months ended May 1, 2016 primarily included favorable adjustments of employee-related costs associated with the 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.

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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 May 1, 2016. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at May 1, 2016, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $16 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary. At May 1, 2016, the carrying amount of long-term debt issued by Applied was $3.3 billion with an estimated fair value of $3.7 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 $315 million at May 1, 2016.

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

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 second quarter of fiscal 2016, 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 12 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 2015 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, 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. In particular, the amount and mix of capital equipment spending between foundry, memory and logic customers can have a significant impact on the results of operations of our Silicon Systems segment, which is the largest contributor to Applied’s consolidated net sales and total new orders.

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. If Applied does not effectively manage its costs during periods of decreasing demand, its gross margins and earnings may be adversely impacted.

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 displays in particular depend largely on consumer spending. 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, 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;
- 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 in the Silicon Systems segment 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;
- semiconductor manufacturer's ability to reconfigure and re-use equipment, and the resulting effect on their need to purchase new equipment and services;

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- 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;
- consolidation in the semiconductor industry, including among semiconductor manufacturers and among manufacturing equipment suppliers;
- 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;
- the potential increasing investment in semiconductor manufacturing capabilities in China, and its effect on the demand for semiconductor manufacturing equipment; 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 display industry.

The global 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, 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 importance of new types of display technologies, such as organic light-emitting diode (OLED), low temperature polysilicon (LTPS), flexible displays and metal oxide, and new touch panel films;
- the timing and extent of an expansion of manufacturing facilities in China, which may be affected by changes in economic conditions in China;
- the rate of transition to larger substrate sizes for TVs and to new display technologies for TVs and mobile applications, and the resulting effect on capital intensity in the industry and on Applied's product differentiation, gross margin and return on investment; 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. Recently, Applied implemented cost reduction measures in its solar business, and as a result incurred restructuring charges, asset impairments and inventory-related charges. 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 assessment of duties on solar cells and modules imported from China, Taiwan and other countries;
- challenges associated with marketing and selling manufacturing equipment and services to a diverse and diffuse customer base;
- the availability and condition of used solar equipment, which impacts demand for new equipment;
- 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 and 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 six months of fiscal 2016, five semiconductor manufacturers accounted for approximately 65 percent of the Silicon Systems segment's net sales and three customers accounted for 35 percent of Applied's consolidated net sales. Applied's display customer base is also highly concentrated. 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. The concentration of our customer base may increase our risks related to the financial condition of our customers, and the failure of a single customer to perform its obligations 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 second quarter of fiscal 2016, approximately 89 percent of Applied's net sales were to customers in regions outside the United States. Moreover, China now represents the largest market for various electronic products, such as TVs, PCs, and smartphones. Certain of Applied's R&D and manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in Singapore, Taiwan, China, Korea, Israel, Germany and Italy. Applied is also expanding its business and operations in new countries. The global nature of Applied's business and operations, combined with the need to continually improve the Company's operating cost structure, presents challenges, including but not limited to those arising from:

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

regulations;

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

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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;
- 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;

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- 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.

Applied's indebtedness and debt covenants could adversely affect its financial condition and business.

Applied has $3.35 billion in aggregate principal amount of senior unsecured notes outstanding. Under the indenture governing the senior unsecured notes, it may be required to offer to repurchase the notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest, upon a change of control of Applied and a contemporaneous downgrade of the notes below investment grade. Applied also has in place a $1.5 billion committed revolving credit agreement. While no amounts were outstanding under this credit agreement at May 1, 2016, Applied may borrow amounts in the future under the agreement. Applied may also enter into new financing arrangements. Applied's ability to satisfy its debt obligations is dependent upon the results of its business operations and other risks discussed in this section. Significant changes in Applied's credit rating or changes in the interest rate environment could have a material adverse consequence on Applied's access to and cost of capital for future financings, and financial condition. If Applied fails to satisfy its debt obligations, or comply with financial and other debt covenants, it may be in default and any borrowings may become immediately due and payable, and such default may also constitute a default under other of Applied's obligations. There can be no assurance that Applied would have sufficient financial resources or be able to arrange financing to repay any borrowings at such time.

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;

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- new and more diverse customers and suppliers, including some with limited operating histories, uncertain and/or limited funding, evolving business models and/or locations in regions where Applied does not have, or has limited, operations;
- new or different competitors with potentially more financial or other resources, industry experience and/or established customer relationships;
- entry into new industries and countries, with differing levels of government involvement, laws and regulations, and business, employment and safety practices;
- third parties' intellectual property rights; and
- the need to comply with, or work to establish, industry standards and practices.

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

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

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

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

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

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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 Germany, Israel, Italy, Singapore, Taiwan, the United States 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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Applied is exposed to risks associated with operating in jurisdictions with complex and changing tax laws.

Applied is subject to taxation in the United States and various other jurisdictions. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's future provision for income taxes and effective tax rates could be affected by numerous factors, including changes in: (1) applicable tax laws; (2) amount and composition of pre-tax income in jurisdictions with differing tax rates; (3) plans to indefinitely reinvest certain funds held outside of the U.S.; and (4) valuation of deferred tax assets and liabilities. As of May 1, 2016, Applied intends to indefinitely reinvest approximately $1.9 billion of cash, cash equivalents and marketable securities held by non-U.S. subsidiaries and does not plan to repatriate these funds. Applied would need to accrue and pay U.S. taxes if these funds were repatriated.

Consistent 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. In certain jurisdictions outside the United States, tax holidays or reduced income tax rates have been granted to Applied. 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 examination by the Internal Revenue Service and other tax authorities, and from time to time amends 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 effective tax rates.

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 May 1, 2016 with respect to the shares of common stock repurchased by Applied during the second quarter of fiscal 2016.

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					
(February 1, 2016 to February 28, 2016)	9.1	$ 17.48	$ 159	9.1	$ 891
Month #2					
(February 29, 2016 to March 27, 2016)	15.0	$ 19.87	298	15.0	$ 593
Month #3					
(March 28, 2016 to May 1, 2016)	21.0	$ 21.02	443	21.0	$ 150
Total	45.1	$ 19.93	$ 900	45.1	

* 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)

May 26, 2016

By: /s/ CHARLES W. READ
Charles W. Read
Corporate Vice President,
Corporate Controller
and Chief Accounting Officer
(Principal Accounting Officer)

May 26, 2016