Gallagher James J. II
Form 3
January 31, 2018

FORM 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
Â Gallagher James J. II

(Last) (First) (Middle)

C/O FEDERATED INVESTORS TOWER,Â 1001 LIBERTY AVENUE

(Street)

PITTSBURGH,Â PAÂ 15222-3779

(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
01/22/2018

3. Issuer Name **and** Ticker or Trading Symbol
FEDERATED PREMIER MUNICIPAL INCOME FUND [FMN]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) __X__ Other (specify below)
Director, Fed. Inv. Mgmt Co.

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Shares of Beneficial Interest	0	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)	4. Conversion or Exercise Price of	5. Ownership Form of Derivative	6. Nature of Indirect Beneficial Ownership (Instr. 5)

Date Exercisable	Expiration Date	Title	Amount or Number of Shares	Derivative Security	Security: Direct (D) or Indirect (I) (Instr. 5)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Gallagher James J. II C/O FEDERATED INVESTORS TOWER 1001 LIBERTY AVENUE PITTSBURGH,Â PAÂ 15222-3779	Â	Â	Â	Director, Fed. Inv. Mgmt Co.

Signatures

/s/George F. Magera, by Power of Attorney	01/31/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.

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1,995

100%

(6)%

24%

	Nine Months Ended				Change
	July 27, 2014		July 28, 2013		YTD Q3 2014 over YTD Q3 2013
	(In millions, except percentages)				
Silicon Systems Group	$4,798	65%	$4,117	65%	17%
Applied Global Services	1,686	23%	1,542	24%	9%
Display	715	10%	589	9%	21%
Energy and Environmental Solutions	194	2%	126	2%	54%
Total	$7,393	100%	$6,374	100%	16%

New orders for the third quarter of fiscal 2014 decreased compared to the prior quarter primarily due to lower orders for semiconductor and display equipment, partially offset by higher demand for semiconductor services and spares. New orders for the third quarter and first nine months of fiscal 2014 increased compared to the same periods in fiscal 2013, primarily due to higher demand for semiconductor equipment, semiconductor spares and services, and display equipment. The Silicon Systems Group's proportion of total new orders relative to other segments remained unchanged compared to the prior quarter and continues to constitute the majority of 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	
	July 27, 2014		April 27, 2014		July 28, 2013		Q3 2014 over Q2 2014	Q3 2014 over Q3 2013
	(In millions, except percentages)							
Taiwan	$497	20%	$660	25%	$356	18%	(25)%	40%
China	384	16%	596	23%	339	17%	(36)%	13%
Korea	217	9%	378	14%	249	12%	(43)%	(13)%
Japan	378	15%	203	8%	333	17%	86%	14%
Southeast Asia	177	7%	72	3%	124	6%	146%	43%
Asia Pacific	1,653	67%	1,909	73%	1,401	70%	(13)%	18%
United States	680	27%	521	20%	369	19%	31%	84%
Europe	146	6%	199	7%	225	11%	(27)%	(35)%
Total	$2,479	100%	$2,629	100%	$1,995	100%	(6)%	24%

	Nine Months Ended				Change
	July 27, 2014		July 28, 2013		YTD Q3 2014 over YTD Q3 2013
	(In millions, except percentages)				
Taiwan	$2,141	29%	$2,164	34%	(1)%
China	1,306	18%	853	14%	53%
Korea	835	11%	706	11%	18%
Japan	744	10%	705	11%	6%
Southeast Asia	299	4%	256	4%	17%
Asia Pacific	5,325	72%	4,684	74%	14%
United States	1,604	22%	1,158	18%	39%
Europe	464	6%	532	8%	(13)%
Total	$7,393	100%	$6,374	100%	16%

The changes in new orders from customers in Taiwan, Korea, Japan and the United States in the third quarter of fiscal 2014 compared to the prior quarter primarily reflected changes in customer mix. The decrease in new orders from customers in China in the third quarter of fiscal 2014 compared to the prior quarter primarily reflected changes in timing of orders received for display equipment. The increases in new orders from customers in the United States and Taiwan in the third quarter of fiscal 2014 compared to the same period in fiscal 2013, were primarily attributable to increased demand for semiconductor equipment.

The increases in new orders from customers in the United States, China and Korea in the first nine months of fiscal 2014 compared to the same periods in the prior year primarily reflected increased demand for semiconductor equipment. Increased demand for display equipment also contributed to the increase in new orders from customers in China during the first nine months of fiscal 2014.

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Changes in backlog during the nine months ended July 27, 2014 were as follows:

	July 27, 2014 (In millions)
Beginning balance	$2,372
New orders	7,393
Net sales	(6,808)
Net adjustments	11
Ending balance	$2,968

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. Backlog adjustments included re-bookings, partially offset by an unfavorable foreign currency impact. Approximately 85 percent of backlog as of the end of the third quarter of fiscal 2014 is anticipated to be shipped within the next two quarters.

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

	July 27, 2014		April 27, 2014		January 26, 2014		Q3 2014 over Q2 2014	Q3 2014 over Q1 2014
	(In millions, except percentages)							
Silicon Systems Group	$1,514	51%	$1,449	53%	$1,370	56%	4%	11%
Applied Global Services	648	22%	642	24%	659	27%	1%	(2)%
Display	651	22%	475	17%	281	12%	37%	132%
Energy and Environmental Solutions	155	5%	169	6%	125	5%	(8)%	24%
Total	$2,968	100%	$2,735	100%	$2,435	100%	9%	22%

Total backlog increased in the third quarter of fiscal 2014 compared to the prior quarter primarily due to the timing of orders received for display equipment in anticipation of future shipments. In the third quarter of fiscal 2014, approximately 43 percent of net sales in the Silicon Systems Group, Applied's largest business segment, were for orders received and shipped within the quarter, down from 54 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	
	July 27, 2014		April 27, 2014		July 28, 2013		Q3 2014 over Q2 2014	Q3 2014 over Q3 2013
	(In millions, except percentages)							
Silicon Systems Group	$1,476	65%	$1,584	67%	$1,272	65%	(7)%	16%
Applied Global Services	567	25%	534	23%	497	25%	6%	14%
Display	119	5%	147	6%	161	8%	(19)%	(26)%
Energy and Environmental Solutions	103	5%	88	4%	45	2%	17%	129%
Total	$2,265	100%	$2,353	100%	$1,975	100%	(4)%	15%

	Nine Months Ended				Change
	July 27, 2014		July 28, 2013		YTD Q3 2014 over YTD Q3 2013
	(In millions, except percentages)				
Silicon Systems Group	$4,544	67%	$3,532	64%	29%
Applied Global Services	1,608	24%	1,485	27%	8%
Display	425	6%	375	7%	13%
Energy and Environmental Solutions	231	3%	129	2%	79%
Total	$6,808	100%	$5,521	100%	23%

Net sales for the third quarter of fiscal 2014 decreased slightly compared to the prior quarter led by lower customer spending on semiconductor equipment. The Silicon Systems Group’s relative share of total net sales decreased slightly compared to the prior quarter but remains the largest contributor of net sales. The Silicon Systems Group and Applied Global Services represented at least 90 percent of Applied's total net sales for all periods presented.

For the third quarter and first nine months of fiscal 2014 compared to the same periods in the prior year, net sales increased primarily due to increased customer investments in semiconductor equipment.

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

	Three Months Ended						Change	
	July 27, 2014		April 27, 2014		July 28, 2013		Q3 2014 over Q2 2014	Q3 2014 over Q3 2013
	(In millions, except percentages)							
Taiwan	$598	26%	$781	33%	$658	33%	(23)%	(9)%
China	288	13%	428	18%	273	14%	(33)%	5%
Korea	226	10%	351	15%	262	13%	(36)%	(14)%
Japan	229	10%	215	9%	154	8%	7%	49%
Southeast Asia	81	4%	52	2%	100	5%	56%	(19)%
Asia Pacific	1,422	63%	1,827	77%	1,447	73%	(22)%	(2)%
United States	683	30%	370	16%	353	18%	85%	93%
Europe	160	7%	156	7%	175	9%	3%	(9)%
Total	$2,265	100%	$2,353	100%	$1,975	100%	(4)%	15%

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Explanation of Responses:

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	Nine Months Ended				Change
	July 27, 2014		July 28, 2013		YTD Q3 2014 over YTD Q3 2013
	(In millions, except percentages)				
Taiwan	$2,084	31%	$2,051	37%	2%
China	1,305	19%	583	11%	124%
Korea	778	11%	693	13%	12%
Japan	608	9%	409	7%	49%
Southeast Asia	220	3%	231	4%	(5)%
Asia Pacific	4,995	73%	3,967	72%	26%
United States	1,333	20%	1,116	20%	19%
Europe	480	7%	438	8%	10%
Total	$6,808	100%	$5,521	100%	23%

The changes in net sales from customers in Taiwan, Korea, China and the United States in the third quarter of fiscal 2014 compared to the prior quarter primarily reflected changes in customer mix and timing of shipments.

The increases in net sales from customers in the United States and Japan in the third quarter and first nine months of fiscal 2014 compared to the same periods in the prior year were primarily due to increased investment in semiconductor equipment. The increase in net sales from customers in China in the first nine months of fiscal 2014 compared to the same period in the prior year was primarily due to increased investment in semiconductor, display and solar equipment.

Gross Margin

Gross margins for the periods indicated were as follows:

	Three Months Ended						Change		Nine Months Ended				Change
	July 27, 2014		April 27, 2014		July 28, 2013		Q3 2014 over Q2 2014	Q3 2014 over Q3 2013	July 27, 2014		July 28, 2013		YTD Q3 2014 over YTD Q3 2013
	(In millions, except percentages)												
Gross margin	$992		$1,001		$806		$(9)	$186	$2,884		$2,196		$688
Gross margin percent	43.8	%	42.5	%	40.8	%	1.3 points	3 points	42.4	%	39.8	%	2.6 points
Non-GAAP Adjusted Results													
Non-GAAP adjusted gross margin	$1,030		$1,041		$847		$(11)	$183	$3,001		$2,325		$676
Non-GAAP adjusted gross margin percent	45.5	%	44.2	%	42.9	%	1.3 points	2.6 points	44.1	%	42.1	%	2.0 points

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

Gross margin and non-GAAP adjusted gross margin decreased in the third quarter of fiscal 2014 compared to the prior quarter, primarily reflecting lower net sales. Gross margin percent and non-GAAP adjusted gross margin percent increased in the third quarter of fiscal 2014 compared to prior quarter, despite lower net sales, primarily due to favorable changes in product mix and the sale of display tools that had been written down previously. Gross margin and non-GAAP adjusted gross margin increased in the third quarter of fiscal 2014 and first nine months compared to the same periods in the prior year, primarily reflecting higher net sales, the recovery of a regional customs duty assessment charge, sales of display and solar tools that had been written down previously, and lower inventory charges and manufacturing costs. Gross margin and non-GAAP adjusted gross margin during each of the three months ended July 27, 2014, April 27, 2014 and July 28, 2013 included $13 million of share-based compensation expense. Gross margin and non-GAAP adjusted gross margin during the nine months ended July 27, 2014 and July 28, 2013 included $40 million and $37 million, respectively, of share-based compensation expense.

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Research, Development and Engineering

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

	Three Months Ended			Change		Nine Months Ended		Change
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014	Q3 2014 over Q3 2013	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013
	(In millions)							
Research, development and engineering	$357	$355	$334	$2	$23	$1,068	$982	$86

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. Applied 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 historically has maintained its commitment to investing in RD&E in order to continue to offer new products and technologies. 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.

As part of its growth strategy, Applied has taken certain actions, including workforce reductions and reprioritization of existing spending, to enable increased funding for investments in technical capabilities and critical RD&E programs that address profitable opportunities in current and new markets, with a focus on semiconductor technologies. RD&E expenses in the third quarter of fiscal 2014 were flat compared to the prior quarter. RD&E expenses in the third quarter and first nine months of fiscal 2014 were higher compared to the same periods in fiscal 2013, reflecting the impact of ongoing product development initiatives. RD&E expenses during the three months ended July 27, 2014, April 27, 2014 and July 28, 2013 included $16 million, $16 million and $14 million, respectively, of share-based compensation expense. RD&E expenses during the nine months ended July 27, 2014 and July 28, 2013 included $49 million and $39 million, respectively, of share-based compensation expense.

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Marketing and Selling

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

	Three Months Ended			Change		Nine Months Ended		Change
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014	Q3 2014 over Q3 2013	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013
	(In millions)							
Marketing and selling	$108	$107	$111	$1	$(3)	$324	$334	$(10)

Marketing and selling expenses for the third quarter of fiscal 2014 were flat compared to the prior quarter and the comparable period in fiscal 2013. Marketing and selling expenses for the first nine months of fiscal 2014 decreased from the same period in fiscal 2013 mainly due to headcount reductions. Marketing and selling expenses during the three months ended July 27, 2014, April 27, 2014 and July 28, 2013 included $6 million, $5 million, and $5 million, respectively, of share-based compensation expense. Marketing and selling expenses during the nine months ended July 27, 2014 and July 28, 2013 included $17 million and $15 million, respectively, of share-based compensation expense.

General and Administrative

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

	Three Months Ended			Change		Nine Months Ended		Change
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014	Q3 2014 over Q3 2013	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013
	(In millions)							
General and administrative	$136	$152	$97	$(16)	$39	$377	$348	$29

G&A expenses for the third quarter of fiscal 2014 decreased from the prior quarter primarily due to proceeds from a favorable litigation outcome and a decrease in unrealized loss related to the foreign exchange option contracts associated with the proposed business combination with TEL, partially offset by an increase in integration planning costs related to the proposed business combination. The third and second quarters of fiscal 2014 included unrealized losses of $10 million and $23 million, respectively, related to foreign exchange option contracts associated with the announced business combination with TEL. G&A expenses for the third quarter and first nine months of fiscal 2014 increased from the comparable period in fiscal 2013 primarily due to integration planning costs and unrealized loss on the foreign exchange option contracts related to TEL, partially offset by proceeds from a favorable litigation outcome and lower administrative function expenses as a result of previously announced restructuring activities. G&A expenses during the three months ended July 27, 2014, April 27, 2014 and July 28, 2013 included $9 million, $8 million and $8 million, respectively, of share-based compensation expense. G&A expenses during the nine months ended July 27, 2014 and July 28, 2013 included $26 million and $25 million, respectively, of share-based compensation expense.

Restructuring Charges and Asset Impairments

Restructuring charges and asset impairments for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014	Q3 2014 over Q3 2013	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013
	(In millions)							
Restructuring charges and asset impairments	$—	$—	$14	$—	$(14)	$7	$33	$(26)

On October 3, 2012, Applied announced a restructuring plan (the 2012 Global Restructuring Plan) to realign its global workforce and enhance its ability to invest for growth. Under this plan, Applied implemented a voluntary retirement program and other workforce reduction actions that affected approximately 1,300 positions. As of January 26, 2014, principal activities related to this plan were complete. During the nine months ended July 27, 2014, Applied recognized $7 million of employee-related costs in connection with this plan. During the three and nine months ended July 28, 2013, Applied recognized $4 million and $12 million, respectively, of employee-related costs in connection with the plan. Total costs incurred in implementing this plan were $152 million, none of which were allocated to the segments.

For further details, see Note 11 of Notes to Consolidated Condensed Financial Statements.

Interest Expense and Interest and Other Income, net

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

	Three Months Ended			Change		Nine Months Ended		Change
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014	Q3 2014 over Q3 2013	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013
	(In millions)							
Interest expense	$24	$23	$23	$1	$1	$72	$71	$1
Interest and other income, net	$3	$1	$1	$2	$2	$14	$6	$8

Interest expense remained flat in the third quarter of fiscal 2014 compared to the prior quarter, and for the third quarter and first nine months of fiscal 2014 compared to the same periods in fiscal 2013. Interest expenses incurred were primarily associated with the senior unsecured notes issued in June 2011.

Interest and other income, net increased in the third quarter of fiscal 2014 compared to the prior quarter and in the first nine months of fiscal 2014 compared to the same period in fiscal 2013, primarily due to realized gains on sales of securities recorded during fiscal 2014, partially offset by increases in impairments of strategic 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		Nine Months Ended		Change
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014	Q3 2014 over Q3 2013	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013
	(In millions, except percentages)							
Provision for income taxes	$69	$103	$60	$(34)	$9	$234	$83	$151
Effective tax rate	18.6 %	28.2 %	26.3 %	(9.6) points	(7.7) points	22.3 %	53.2 %	(30.9) points

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

Applied’s effective tax rates for the third and second quarters of fiscal 2014 were 18.6 percent and 28.2 percent, respectively. Applied’s effective tax rate for the third quarter of fiscal 2013 was 26.3 percent. The effective tax rate for the third quarter of fiscal 2014 was lower than the prior quarter and the same period in the prior year primarily due to the resolution of income tax filings and changes in the geographical composition of income.

Applied’s effective tax rates for the first nine months of fiscal 2014 and 2013 were 22.3 percent and 53.2 percent, respectively. The effective tax rate for the first nine months of fiscal 2014 was lower than in the same period in the prior year primarily due to a goodwill impairment charge recorded in the second quarter of fiscal 2013 that was not deductible, the resolution of income tax filings and changes in the geographical composition of income.

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Segment Information

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

The results for each reportable segment are discussed below.

Silicon Systems Group Segment

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

The competitive environment for the Silicon Systems Group in the first nine months of fiscal 2014 reflected continued investment by semiconductor manufacturers, with foundries remaining the primary driver of the segment’s net sales as customers ramp wafer starts at advanced nodes to meet demand for advanced mobile chips. Net sales to memory customers also improved during this period as manufacturers of DRAM and NAND products invest in technology upgrades.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014		Q3 2014 over Q3 2013	
	(In millions, except percentages and ratios)						
New orders	$1,565	$1,664	$1,203	$(99)	(6)%	$362	30%
Net sales	1,476	1,584	1,272	(108)	(7)%	204	16%
Book to bill ratio	1.1	1.1	0.9				
Operating income	381	391	246	(10)	(3)%	135	55%
Operating margin	25.8 %	24.7 %	19.3 %		1.1 points		6.5 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$423	$433	$283	(10)	(2)%	140	49%
Non-GAAP adjusted operating margin	28.7 %	27.3 %	22.2 %		1.4 points		6.5 points

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	Nine Months Ended		Change	
	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013	
	(In millions, except percentages and ratios)			
New orders	$4,798	$4,117	$681	17%
Net sales	4,544	3,532	1,012	29%
Book to bill ratio	1.1	1.2		
Operating income	1,086	663	423	64%
Operating margin	23.9 %	18.8 %		5.1 points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income	$1,213	$792	421	53%
Non-GAAP adjusted operating margin	26.7 %	22.4 %		4.3 points

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

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

	Three Months Ended			Nine Months Ended	
	July 27, 2014	April 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Foundry	50%	50%	45%	53%	62%
Memory	36%	38%	38%	36%	24%
Logic and other	14%	12%	17%	11%	14%
	100%	100%	100%	100%	100%

New orders for the third quarter of fiscal 2014 decreased from the prior quarter primarily due to lower demand from memory and foundry customers. New orders from foundry customers still constitute the majority of this segment's new orders. Net sales for the third quarter of fiscal 2014 decreased sequentially primarily due to lower spending from memory customers, partially offset by increased investments from foundry customers. Approximately 43 percent of net sales in the third quarter of fiscal 2014 were for orders received and shipped within the quarter. Operating income and non-GAAP adjusted operating income decreased in the third quarter of fiscal 2014 compared to the prior quarter, reflecting lower net sales, while operating income margin and non-GAAP adjusted operating income margin increased primarily due to favorable changes in product mix. In the third quarter of fiscal 2014, four customers accounted for approximately 63 percent of this segment's total new orders, while one customer accounted for approximately 26 percent of this segment's net sales.

New orders and net sales for the third quarter and first nine months of fiscal 2014 increased compared to the same periods in fiscal 2013 mainly due to increased demand and spending from foundry and memory customers. Operating income and non-GAAP adjusted operating income increased in the third quarter and first nine months of fiscal 2014 compared to the same periods in the prior year, reflecting the increase in net sales, partially offset by increased RD&E spending.

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

Three Months Ended			Change	
July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014	Q3 2014 over Q3 2013

	(In millions, except percentages)							
Taiwan	$466	32%	$652	41%	$533	42%	(29)%	(13)%
United States	$544	37%	$234	15%	$231	18%	132%	135%

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	Nine Months Ended				Change
	July 27, 2014		July 28, 2013		YTD Q3 2014 over YTD Q3 2013
	(In millions, except percentages)				
Taiwan	$1,711	38%	$1,711	48%	—%
United States	$934	21%	$734	21%	27%

Applied Global Services Segment

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

Industry conditions that affected Applied Global Services' sales of spares and services during the first nine months of fiscal 2014 were principally semiconductor manufacturers' wafer starts, as well as utilization rates.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended						Change			
	July 27, 2014		April 27, 2014		July 28, 2013		Q3 2014 over Q2 2014		Q3 2014 over Q3 2013	
	(In millions, except percentages and ratios)									
New orders	$552		$537		$517		$15	3%	$35	7%
Net sales	567		534		497		33	6%	70	14%
Book to bill ratio	1.0		1.0		1.0					
Operating income	154		148		114		6	4%	40	35%
Operating margin	27.2	%	27.7	%	22.9	%		(0.5) point		4.3 points
Non-GAAP Adjusted Results										
Non-GAAP adjusted operating income	154		150		116		4	3%	38	33%
Non-GAAP adjusted operating margin	27.2	%	28.1	%	23.3	%		(0.9) point		3.9 points

	Nine Months Ended				Change	
	July 27, 2014		July 28, 2013		YTD Q3 2014 over YTD Q3 2013	
	(In millions, except percentages and ratios)					
New orders	$1,686		$1,542		$144	9%
Net sales	1,608		1,485		123	8%
Book to bill ratio	1.0		1.0			
Operating income	427		321		106	33%
Operating margin	26.6	%	21.6	%		5.0 points
Non-GAAP Adjusted Results						
Non-GAAP adjusted operating income	$430		$327		103	31%
Non-GAAP adjusted operating margin	26.7	%	22.0	%		4.7 points

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results."
New orders for the third quarter of fiscal 2014 increased compared to the prior quarter primarily due to increased demand for semiconductor spares and services. Net sales for the third quarter of fiscal 2014 increased from the prior quarter primarily due

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to higher investment in semiconductor spares and services as well as display and semiconductor remanufactured equipment. Operating income and non-GAAP adjusted operating income were slightly higher than in the prior quarter primarily due to higher net sales. Operating margin and non-GAAP adjusted operating margin slightly decreased from the prior quarter primarily due to a lower recovery of the remaining regional customs duty assessment charge.

New orders and net sales for the third quarter of fiscal 2014 increased compared to the same period in fiscal 2013 mainly due to increased demand for semiconductor spares and services. In addition, increased investments in display equipment upgrades and 200mm equipment systems contributed to the increase in net sales for the third quarter of fiscal 2014 compared to the same period in fiscal 2013. Operating income and non-GAAP adjusted operating income increased in the third quarter of fiscal 2014 compared to the same period in the prior year, reflecting the increase in net sales.

New orders and net sales for the first nine months of fiscal 2014 increased compared to the same period in fiscal 2013 mainly due to increased demand for semiconductor spares and services, as well as 200mm equipment systems and equipment upgrades. Operating income and non-GAAP adjusted operating income increased in the first nine months of fiscal 2014 compared to the same period in the prior year, reflecting the increase in net sales as well as the recovery of a regional customs duty assessment charge.

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; entry into new markets such as low temperature polysilicon (LTPS), metal oxide, and touch panel sectors; and development of products that enable cost reductions through productivity and uniformity. Display industry growth depends primarily on consumer demand for increasingly larger and more advanced LCD TVs and high resolution displays for next generation mobile devices.

The market environment for Applied's Display segment in 2014 has been characterized by continued demand for manufacturing equipment for TV and high-end mobile devices, although this sector remains susceptible to highly cyclical conditions. Uneven order and revenue patterns in the Display segment can cause significant fluctuations quarter-over-quarter, as well as year-over year.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change	
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014	Q3 2014 over Q3 2013
	(In millions, except percentages and ratios)				
New orders	$296	$340	$256	$(44) (13)%	$40 16%
Net sales	119	147	161	(28) (19)%	(42) (26)%
Book to bill ratio	2.5	2.3	1.6		
Operating income	25	26	33	(1) (4)%	(8) (24)%
Operating margin	21.0%	17.7%	20.5%	3.3 points	0.5 point
Non-GAAP Adjusted Results					
Non-GAAP adjusted operating income	$26	$26	$34	— —%	(8) (24)%
Non-GAAP adjusted operating margin	21.8%	17.7%	21.1%	4.1 points	0.7 point

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Explanation of Responses:

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	Nine Months Ended		Change	
	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013	
	(In millions, except percentages and ratios)			
New orders	$715	$589	$126	21%
Net sales	425	375	50	13%
Book to bill ratio	1.7	1.6		
Operating income	77	55	22	40%
Operating margin	18.1 %	14.7 %		3.4 points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income	$79	$60	19	32%
Non-GAAP adjusted operating margin	18.6 %	16.0 %		2.6 points

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

New orders for the third quarter of fiscal 2014 decreased compared to the prior quarter but remained at relatively high levels. Net sales also were lower compared to the prior quarter due to timing of shipments. Operating income and non-GAAP adjusted operating income were essentially flat compared to the prior quarter. Operating margin and non-GAAP adjusted operating margin increased over the prior quarter, despite a decrease in net sales, due primarily to sales of tools for which inventory had been fully reserved previously. Four customers accounted for approximately 85 percent of new orders for the Display segment in the third quarter of fiscal 2014, with one customer accounting for more than 40 percent of new orders. Three customers accounted for approximately 80 percent of net sales for this segment in the third quarter of fiscal 2014.

New orders for the third quarter of fiscal 2014 increased compared to the same period in the prior year primarily due to higher demand for TV manufacturing equipment, while net sales were lower compared to the same period in the prior year mainly due to timing of shipments. Operating income and non-GAAP adjusted operating income decreased for the third quarter of fiscal 2014 from the comparable period in fiscal 2013, reflecting decreased net sales.

New orders and net sales for the first nine months of fiscal 2014 increased compared to the same period in the prior year primarily due to higher demand for TV manufacturing equipment. Operating income and non-GAAP adjusted operating income also increased, reflecting higher net sales, better installation and warranty performance, and material and manufacturing cost reductions, partially offset by increased research and development expenses.

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

	Three Months Ended						Change	
	July 27, 2014		April 27, 2014		July 28, 2013		Q3 2014 over Q2 2014	Q3 2014 over Q3 2013
	(In millions, except percentages)							
China	$65	55%	$135	92%	$113	70%	(52)%	(42)%
Korea	$36	30%	$1	1%	$26	16%	3,500%	38%

Nine Months Ended		Change
July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013

	(In millions, except percentages)				
China	$355	84%	$187	50%	90%
Korea	$41	10%	$128	34%	(68)%

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Energy and Environmental Solutions Segment

The Energy and Environmental Solutions segment includes products for fabricating crystalline-silicon (c-Si) solar PV wafers and cells, as well as high throughput roll-to-roll deposition equipment for flexible electronics, packaging and other applications. This business is focused on delivering solutions to generate and conserve energy, with an emphasis on lowering the cost to produce solar modules and increasing conversion efficiency. While end-demand for solar PVs has been robust over the last several years, investment in capital equipment has remained low as global PV production capacity exceeds anticipated demand. The solar equipment environment improved slightly in the first nine months of fiscal 2014 relative to the same period in the previous year.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	July 27, 2014	April 27, 2014	July 28, 2013	Q3 2014 over Q2 2014		Q3 2014 over Q3 2013	
	(In millions, except percentages and ratios)						
New orders	$66	$88	$19	$(22)	(25)%	$47	247%
Net sales	103	88	45	15	17%	58	129%
Book to bill ratio	0.6	1.0	0.4				
Operating income (loss)	24	5	(27)	19	380%	51	189%
Operating margin	23.3%	5.7%	(60.0)%		17.6 points		83.3 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income (loss)	25	7	(15)	18	257%	40	267%
Non-GAAP adjusted operating margin	24.3%	8.0%	(33.3)%		16.3 points		57.6 points

	Nine Months Ended		Change	
	July 27, 2014	July 28, 2013	YTD Q3 2014 over YTD Q3 2013	
	(In millions, except percentages and ratios)			
New orders	$194	$126	$68	54%
Net sales	231	129	102	79%
Book to bill ratio	0.8	1.0		
Operating income (loss)	18	(403)	421	104%
Operating margin	7.8%	(312.4)%		320.2 points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income (loss)	$22	$(93)	115	124%
Non-GAAP adjusted operating margin	9.5%	(72.1)%		81.6 points

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Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results.".
New orders and net sales for the third quarter and first nine months of fiscal 2014 remained at low levels due to continued excess manufacturing capacity in the solar industry. Two customers accounted for approximately 40 percent of net sales for this segment during the third quarter of fiscal 2014. Operating margin and non-GAAP adjusted operating margin increased for the third quarter compared to the prior quarter, primarily due to proceeds from a favorable litigation outcome. Operating margin and non-GAAP operating margin for the third quarter and first nine months of fiscal 2014 were also higher compared to the same periods in the prior year primarily due to proceeds from a favorable litigation outcome, lower inventory charges, sales of solar tools that were written down previously and continued cost reduction measures and spending controls. Operating loss for the first nine months of fiscal 2013 included $278 million in goodwill and intangible asset impairment charges.
The following regions accounted for at least 30 percent of total net sales for the Energy and Environmental Solutions segment for one or more of the periods presented:

	Three Months Ended						Change	
	July 27, 2014		April 27, 2014		July 28, 2013		Q3 2014 over Q2 2014	Q3 2014 over Q3 2013
	(In millions, except percentages)							
China	$72	70%	$65	74%	$30	67%	11%	140%

	Nine Months Ended				Change
	July 27, 2014		July 28, 2013		YTD Q3 2014 over YTD Q3 2013
	(In millions, except percentages)				
China	$148	64%	$66	51%	124%

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Financial Condition, Liquidity and Capital Resources

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

	July 27, 2014	October 27, 2013
	(In millions)	
Cash and cash equivalents	$2,726	$ 1,711
Short-term investments	145	180
Long-term investments	957	1,005
Total cash, cash-equivalents and investments	$3,828	$ 2,896

Sources and Uses of Cash

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

	Nine Months Ended	
	July 27, 2014	July 28, 2013
	(In millions)	
Cash provided by operating activities	$1,393	$604
Cash provided by (used in) investing activities	$(108)	$158
Cash used in financing activities	$(270)	$(409)

Operating Activities

Cash from operating activities for the nine months ended July 27, 2014 was $1.4 billion, 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 restructuring and asset impairments. Cash from operating activities reflected higher business volumes and increases in deferred revenue, partially offset by increases in inventories. The increases in inventories were mainly due to higher deferred inventory at the end of the third quarter of fiscal 2014.

Applied discounted $29 million of letters of credit issued by customers during the nine months ended July 27, 2014. Applied did not discount any letters of credit during the three months ended July 27, 2014 or the three and nine months ended July 28, 2013. 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 factored accounts receivable of $45 million during the nine months ended July 27, 2014. There was no factoring of accounts receivable during the three months ended July 27, 2014 or the three and the nine months ended July 28, 2013.

Applied’s working capital was $3.9 billion at July 27, 2014 and $3.2 billion at October 27, 2013.

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

	July 27, 2014	April 27, 2014	July 28, 2013
Days sales outstanding	65	62	54
Days inventory outstanding	111	105	106
Days payable outstanding	42	41	40

Days sales outstanding varies due to the timing of shipments and payment terms. Days sales outstanding increased in the third quarter of fiscal 2014 compared to the prior quarter primarily due to a decrease in revenue and slightly unfavorable revenue linearity, partially offset by improved collection performance. Days inventory outstanding and days payable outstanding increased during the third quarter of fiscal 2014 compared to the prior quarter reflecting slightly lower business volumes.

Days sales outstanding increased in the third quarter of fiscal 2014 compared to the same period in fiscal 2013 primarily due to unfavorable revenue linearity. Days inventory outstanding increased in the third quarter of fiscal 2014 compared to the same period in fiscal 2013 primarily due to a higher inventory balance reflecting increased business volumes.

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Investing Activities

Applied used $108 million of cash in investing activities during the nine months ended July 27, 2014. Proceeds from sales and maturities of investments, net of purchases of investments, totaled $70 million and capital expenditures were $178 million during the nine months ended July 27, 2014.

Financing Activities

Applied used cash for financing activities in the amount of $270 million during the nine months ended July 27, 2014, consisting primarily of $363 million in payment of cash dividends to stockholders, offset by proceeds from stock issuances related to equity compensation awards, including associated tax benefits, of $93 million.

In June 2014, March 2014 and December 2013, 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 comprised of a committed revolving credit agreement with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at July 27, 2014. Remaining credit facilities in the amount of approximately $78 million are with Japanese banks. Applied’s ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks’ prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both July 27, 2014 and October 27, 2013, and Applied has not utilized these credit facilities. In connection with the proposed business combination with TEL, Applied intends to amend or replace its undrawn $1.5 billion unsecured revolving credit agreement.

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At July 27, 2014, Applied was in compliance with all such covenants. See Note 10 of Notes to Consolidated Condensed Financial Statements for additional discussion of long-term debt.

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of July 27, 2014, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $45 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of July 27, 2014, Applied Materials, Inc. has provided parent guarantees to banks for approximately $102 million to cover these arrangements.

Others

During the fourth quarter of fiscal 2013, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with TEL. At July 27, 2014, the fair value of these foreign exchange option contracts was approximately $8 million. To further mitigate credit exposure in connection with these foreign exchange option contracts, Applied entered into security arrangements with certain counterparties, which require the counterparties to post collateral amounting to the approximate fair value of the derivative contracts. The cash collateral is included in cash and cash equivalents in the Consolidated Condensed Statements of Financial Position, with the corresponding liability included in accounts payable and accrued expenses. See Note 5 of Notes to Consolidated Condensed Financial Statements for additional discussion of derivative instruments.

Applied’s investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, municipal bonds, corporate bonds and mortgage-backed and asset-backed securities, as well as equity securities. Applied regularly monitors the credit risk in its investment portfolio and takes appropriate measures, which may include the sale of certain securities, to manage such risks prudently in accordance with its investment policies. During the three and nine months ended July 27, 2014, Applied did not recognize any impairment of its fixed income or publicly traded equity securities. At July 27, 2014, gross unrealized losses due to a decrease in the fair value of certain fixed income securities were not material.

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During the nine months ended July 27, 2014, Applied did not record a bad debt provision. While Applied believes that its allowance for doubtful accounts at July 27, 2014 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

As of July 27, 2014, approximately $2.4 billion of cash, cash equivalents, and marketable securities held by foreign subsidiaries may be subject to U.S. taxes if repatriated for U.S. operations. Of this amount, Applied intends to permanently reinvest approximately $1.8 billion of these funds outside of the U.S. and does not plan to repatriate these funds. For the remaining cash, cash equivalents and marketable securities held by foreign subsidiaries, U.S. taxes have been provided for in the financial statements.

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

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Critical Accounting Policies and Estimates

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

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

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

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

Revenue Recognition

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

Warranty Costs

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

Allowance for Doubtful Accounts

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

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

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

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

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

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

Non-GAAP Adjusted Results
Management uses non-GAAP adjusted results to evaluate operating and financial performance in light of business objectives and for planning purposes. Applied believes these measures enhance investors' ability to review the Company's business from the same perspective as management and facilitate comparisons of this period's results with prior periods. The non-GAAP adjusted results presented below exclude the impact of the following, where applicable: certain acquisition-related costs; restructuring charges and any associated adjustments; impairments of assets, goodwill, or investments; gain or loss on sale of facilities and investments; and certain 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 July 27, 2014	April 27, 2014	July 28, 2013	Nine Months Ended July 27, 2014	July 28, 2013
Non-GAAP Adjusted Gross Margin					
Reported gross margin - GAAP basis	$992	$1,001	$806	$2,884	$2,196
Certain items associated with acquisitions[1]	38	39	40	116	126
Acquisition integration costs	—	1	1	1	3
Non-GAAP adjusted gross margin	$1,030	$1,041	$847	$3,001	$2,325
Non-GAAP adjusted gross margin percent (% of net sales)	45.5 %	44.2 %	42.9 %	44.1 %	42.1 %
Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$391	$387	$250	$1,108	$221
Impairment of goodwill and intangible assets	—	—	—	—	278
Certain items associated with acquisitions[1]	44	46	47	135	154
Acquisition integration costs	9	10	5	30	27
Unrealized loss on derivative associated with announced business combination	10	23	—	9	—
Certain items associated with announced business combination[2]	23	16	—	50	—
Restructuring charges and asset impairments[3, 4, 5]	—	—	14	7	33
Gain on sale of facility	—	—	(4)	—	(4)
Non-GAAP adjusted operating income	$477	$482	$312	$1,339	$709
Non-GAAP adjusted operating margin percent (% of net sales)	21.1 %	20.5 %	15.8 %	19.7 %	12.8 %
Non-GAAP Adjusted Net Income					
Reported net income - GAAP basis	$301	$262	$168	$816	$73
Impairment of goodwill and intangible assets	—	—	—	—	278
Certain items associated with acquisitions[1]	44	46	47	135	154
Acquisition integration costs	9	10	5	30	27
Unrealized loss on derivative associated with announced business combination	10	23	—	9	—
Certain items associated with announced business combination[2]	23	16	—	50	—
Restructuring charges and asset impairments[3, 4, 5]	—	—	14	7	33
Impairment (gain on sale) of strategic investments, net	(1)	2	2	(4)	4
Gain on sale of facility	—	—	(4)	—	(4)
Reinstatement of federal R&D tax credit	—	—	—	—	(13)
Resolution of prior years' income tax filings and other tax items	(19)	12	(3)	(22)	(14)
Income tax effect of non-GAAP adjustments	(18)	(23)	(7)	(45)	(48)
Non-GAAP adjusted net income	$349	$348	$222	$976	$490

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 announced business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration planning costs.

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

4 Results for the three months ended July 28, 2013 included $4 million of employee-related costs related to the restructuring program announced on October 3, 2012, and restructuring and asset impairment charges of $10 million related to the restructuring program announced on May 10, 2012.

5 Results for the nine months ended July 28, 2013 included $12 million of employee-related costs, net, related to the restructuring program announced on October 3, 2012, restructuring and asset impairment charges of $19 million related to the restructuring program announced on May 10, 2012, and severance charges of $2 million related to the integration of Varian Semiconductor Equipment Associates, Inc (Varian).

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

(In millions, except per share amounts)	Three Months Ended July 27, 2014	April 27, 2014	July 28, 2013	Nine Months Ended July 27, 2014	July 28, 2013
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings per diluted share - GAAP basis	$0.24	$0.21	$0.14	$0.66	$0.06
Impairment of goodwill and intangible assets	—	—	—	—	0.22
Certain items associated with acquisitions	0.03	0.03	0.03	0.09	0.10
Acquisition integration costs	0.01	0.01	—	0.02	0.02
Unrealized loss on derivative associated with announced business combination	—	0.01	—	—	—
Certain items associated with announced business combination	0.02	0.01	—	0.04	—
Restructuring charges and asset impairments	—	—	0.01	—	0.02
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings and other tax items	(0.02)	0.01	—	(0.02)	(0.02)
Non-GAAP adjusted earnings per diluted share	$0.28	$0.28	$0.18	$0.79	$0.40
Weighted average number of diluted shares	1,233	1,229	1,220	1,230	1,218

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

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

(In millions, except percentages)	Three Months Ended July 27, 2014	April 27, 2014	July 28, 2013	Nine Months Ended July 27, 2014	July 28, 2013
SSG Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$381	$391	$246	$1,086	$663
Certain items associated with acquisitions[1]	42	42	42	126	131
Acquisition integration costs	—	—	(5)	1	(3)
Restructuring charges and asset impairments[3]	—	—	—	—	1
Non-GAAP adjusted operating income	$423	$433	$283	$1,213	$792
Non-GAAP adjusted operating margin percent (% of net sales)	28.7 %	27.3 %	22.2 %	26.7 %	22.4 %
AGS Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$154	$148	$114	$427	$321
Certain items associated with acquisitions[1]	—	2	2	3	4
Restructuring charges and asset impairments[3]	—	—	—	—	2
Non-GAAP adjusted operating income	$154	$150	$116	$430	$327
Non-GAAP adjusted operating margin percent (% of net sales)	27.2 %	28.1 %	23.3 %	26.7 %	22.0 %
Display Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$25	$26	$33	$77	$55
Certain items associated with acquisitions[1]	1	—	1	2	5
Non-GAAP adjusted operating income	$26	$26	$34	$79	$60
Non-GAAP adjusted operating margin percent (% of net sales)	21.8 %	17.7 %	21.1 %	18.6 %	16.0 %
EES Non-GAAP Adjusted Operating Income (Loss)					
Reported operating income (loss) - GAAP basis	$24	$5	$(27)	$18	$(403)
Impairment of goodwill and intangible assets	—	—	—	—	278
Certain items associated with acquisitions[1]	1	2	2	4	14
Restructuring charges and asset impairments[2, 3]	—	—	10	—	18
Non-GAAP adjusted operating income (loss)	$25	$7	$(15)	$22	$(93)
Non-GAAP adjusted operating margin percent (% of net sales)	24.3 %	8.0 %	(33.3)%	9.5 %	(72.1)%

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

2 Results for the three months ended July 28, 2013 included restructuring and asset impairment charges of $10 million related to the restructuring program announced on May 10, 2012.

3 Results for the nine months ended July 28, 2013 included restructuring and asset impairment charges of $19 million related to the restructuring program announced on May 10, 2012 and severance charges of $2 million related to the integration of Varian.

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 July 27, 2014. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied’s investment portfolio at July 27, 2014, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $15 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary. At July 27, 2014, the carrying amount of debt issued by Applied was $1.9 billion with an estimated fair value of $2.2 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied’s debt issuances of approximately $180 million at July 27, 2014.

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

In certain cases, Applied uses derivatives to hedge specific foreign currency exposures. During the fourth quarter of fiscal 2013, as part of an overall risk management strategy, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with TEL in the event there is a significant weakening in the Japanese yen as compared to the U.S. dollar. The derivatives used to hedge the currency exposure did not qualify for hedge accounting treatment. At July 27, 2014, the fair value of the foreign exchange currency option contracts was approximately $8 million. Applied recorded an unrealized loss of $10 million during the third quarter of fiscal 2014 related to such contracts. Changes in the exchange rate between the U.S. dollar and the Japanese yen would impact Applied's consolidated financial statements. The future maximum loss exposure on this option contract is generally limited to its fair value as of the most recent balance sheet date. For further details, see Note 5 of Notes to Consolidated Condensed Financial Statements.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the third quarter of fiscal 2014, 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 above under the caption “Legal Matters” in Note 15 contained 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 2013 Form 10-K. These factors could materially and adversely affect Applied’s business, financial condition or results of operations and cause reputational harm, and they should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.
The industries that Applied serves are volatile and difficult to predict.
As a supplier to the global semiconductor, flat panel display, and solar industries, Applied is subject to business cycles, the timing, length and volatility of which can be difficult to predict and which vary by reportable segment. These industries historically have been cyclical due to sudden changes in customers’ requirements for new manufacturing capacity and advanced technology, which depend in part on customers’ capacity utilization, production volumes, access to affordable capital, end-use demand, consumer buying patterns, and inventory levels relative to demand, as well as the rate of technology transitions and general economic conditions. These changes have affected the timing and amounts of customers’ purchases and investments in technology, and continue to affect Applied’s orders, net sales, operating expenses and net income.
To meet rapidly changing demand in the industries it serves, Applied must accurately forecast demand and effectively manage its resources and production capacity for each of its segments as well as across multiple segments, and may incur unexpected or additional costs to align its business operations. During periods of increasing demand for its products, Applied must have sufficient manufacturing capacity and inventory to meet customer demand; effectively manage its supply chain; attract, retain and motivate a sufficient number of qualified employees; and continue to control costs. During periods of decreasing demand, Applied must reduce costs and align its cost structure with prevailing market conditions; effectively manage its supply chain; and motivate and retain key employees.
Applied is exposed to risks associated with the uncertain global economy.
Uncertain global economic conditions and weak or moderate growth in China, Europe, and the United States, along with uncertainties in the financial markets, national debt and fiscal concerns in various regions, and government austerity measures, are posing challenges to the industries in which Applied operates. The markets for semiconductors and flat panel displays in particular depend largely on consumer spending, while the solar market depends in part on government incentives and the availability of financing for PV installations. Economic uncertainty and related factors exacerbate negative trends in business and consumer spending and may cause certain Applied customers to push out, cancel, or refrain from placing orders for equipment or services, which may in turn reduce Applied's net sales, reduce backlog, and affect Applied’s ability to convert backlog to sales. Uncertain market conditions, difficulties in obtaining capital, or reduced profitability may also cause some customers to scale back operations, exit businesses, merge with other manufacturers, or file for bankruptcy protection and potentially cease operations, which can also result in lower sales and/or additional inventory or bad debt expense for Applied. These conditions may similarly affect key suppliers, which could impair their ability to deliver parts and result in delays for Applied’s products or added costs. In addition, these conditions may lead to strategic alliances by, or consolidation of, other equipment manufacturers, which could adversely affect Applied’s ability to compete effectively.
Uncertainty about future economic and industry conditions also makes it more challenging for Applied to forecast its operating results, make business decisions, and identify and prioritize the risks that may affect its businesses, sources and uses of cash, financial condition and results of operations. Applied may be required to implement additional cost reduction efforts, including restructuring activities, which may adversely affect Applied’s ability to capitalize on opportunities. In addition, Applied maintains an investment portfolio that is subject to general credit, liquidity, foreign exchange, market and interest rate risks. The risks to Applied’s investment portfolio may be exacerbated if financial

market conditions deteriorate and, as a result, the value and liquidity of the investment portfolio, as well as returns on pension assets, could be negatively impacted and lead to impairment charges. Applied also maintains cash balances in various bank accounts globally in order to fund normal operations. If any of these financial institutions becomes insolvent, it could limit Applied's ability to access cash in the affected accounts.

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Applied is exposed to risks as a result of ongoing changes in the various industries in which it operates.
The global semiconductor, flat panel display, solar and related industries in which Applied operates are characterized by ongoing changes affecting some or all of these industries that impact demand for and/or the profitability of Applied's products, including:

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

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

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

Explanation of Responses:

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

Applied must accurately forecast, and allocate appropriate resources and investment towards addressing, key technology changes and inflections, such as the transition to 20nm devices, in order to enable opportunities for gains. In addition, the proposed industry transition from 300mm to 450mm wafers presents opportunities as well as risks and uncertainties, including those related to cost, technical complexity, timing, and the resulting effect on demand for manufacturing equipment and services.

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

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

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

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

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

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

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

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

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

Applied’s semiconductor customer base historically has been, and is becoming even more, highly concentrated as a result of economic and industry conditions. In the first nine months of fiscal 2014, three semiconductor manufacturers accounted for approximately 58 percent of Silicon Systems Group net sales and two customers accounted for 37 percent of Applied’s consolidated net sales. Applied’s display customer base is also highly concentrated, while concentration within Applied’s solar customer base varies depending on the product line but is increasing due to challenging industry conditions. Applied’s customer base is also geographically-concentrated. See Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for tabular presentations of net sales by geographic region.

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

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

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

In the third quarter of fiscal 2014, approximately 70 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;

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

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

The proposed business combination with Tokyo Electron Limited may not be completed or, if completed, the intended benefits may not be fully realized.

On September 24, 2013, Applied announced an agreement with Tokyo Electron Limited (TEL), a Japanese corporation and global supplier of semiconductor and flat panel display production equipment, and provider of technical support and services for semiconductor, flat panel display and PV panel production equipment, to effect a strategic combination of their respective businesses. Under the agreement, which was amended February 14, 2014, the closing of the transaction is subject to customary conditions, including regulatory approvals. The proposed business combination is subject to the risk factors described immediately above, including the risks that the combination may not be consummated in a timely manner or at all; that required regulatory approvals may not be obtained or may be subject to conditions that reduce the estimated benefits of the combination; that the businesses, operations, systems, technologies, products or employees of Applied and TEL may not be integrated successfully; and, following completion of the transaction, that ineffective integration, changes in laws or regulations, or other factors, may impact the combined company’s ability to realize anticipated synergies and benefits.

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;

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- the complexity of managing multiple businesses with variations in production planning, execution, supply chain management and logistics;
- the adoption of new business models, business processes and systems;
- Applied’s ability to rapidly expand or reduce its operations to meet increased or decreased demand, respectively, and the associated effect on working capital;
- new materials, processes and technologies;
- the need to attract, motivate and retain employees with skills and expertise in these new areas;
- new and more diverse customers and suppliers, including some with limited operating histories, uncertain and/or limited funding, evolving business models and/or locations in regions where Applied does not have, or has limited, operations;
- new or different competitors with potentially more financial or other resources, industry experience and/or established customer relationships;
- entry into new industries and countries, with differing levels of government involvement, laws and regulations, and business, employment and safety practices;
- third parties’ intellectual property rights; and
- the need to comply with, or work to establish, industry standards and practices.

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

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

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

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

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

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

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

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

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

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

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

In addition, Applied must regularly implement or update comprehensive programs and processes to better align its global organizations, including initiatives to enhance the Asia supply chain and improve back office and information technology infrastructure for more efficient transaction processing. Applied also is implementing a multi-year, company-wide program to transform certain business processes or extend established processes, including enhancements or replacements to certain enterprise resource planning (ERP) software systems. The implementation of additional functionality to the ERP system 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, negatively affect employee morale, or have other unintended consequences.

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

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

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

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

As a global company, Applied is subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied’s future annual and quarterly tax rates could be affected by numerous factors, including changes in the: (1) applicable tax laws; (2) amount and composition of pre-tax income in countries with differing tax rates; (3) plans of the Company to permanently reinvest certain funds held outside of the U.S.; and (4) valuation of Applied’s deferred tax assets and liabilities.

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

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

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

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

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

Applied is subject to various risks related to: (1) new, different, inconsistent or conflicting laws, rules and regulations that may be enacted by executive order, legislative bodies or regulatory agencies in the countries in which Applied operates; (2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules and regulations. As a public company with global operations, Applied is subject to the laws of multiple jurisdictions and the rules and regulations of various governing bodies, including those related to financial and other disclosures, corporate governance, privacy, and anti-corruption. One such law imposes new disclosure requirements regarding the use of certain minerals, referred to as “conflict minerals,” originating from mines in or near the Democratic Republic of Congo. This requirement could affect the price, sourcing and availability of these or related minerals used to make components incorporated in Applied products, and it also requires Applied to incur costs and maintain processes to investigate its supply chain to determine the source of any of the covered minerals in its products. Applied’s supply chain is complex, and industry tracing protocols are still under development, so the Company may be unable to verify the origin of all such minerals in its products. These and other 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

During the third quarter of fiscal 2014, there were no shares of common stock repurchased by Applied. On March 5, 2012, the Board of Directors approved a stock repurchase program authorizing up to $3.0 billion in repurchases over the next three years, ending March 2015. At July 27, 2014, $1.6 billion remained available for future stock repurchases under this repurchase program.

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Item 6. Exhibits

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

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

†Filed herewith.
‡Furnished herewith.

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SIGNATURES

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

APPLIED MATERIALS, INC.

By: /s/ ROBERT J. HALLIDAY
Robert J. Halliday
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

August 21, 2014

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

August 21, 2014

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