

APPLIED MATERIALS INC /DE
Form 10-Q
February 19, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 25, 2015
or

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

Delaware 94-1655526
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3050 Bowers Avenue, 95052-8039
P.O. Box 58039
Santa Clara, California (Zip Code)
(Address of principal executive offices)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Number of shares outstanding of the issuer's common stock as of February 11, 2015: 1,228,696,722

Table of Contents

APPLIED MATERIALS, INC.
 FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JANUARY 25, 2015
 TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1: <u>Financial Statements (Unaudited)</u>	<u>3</u>
<u>Consolidated Condensed Statements of Operations for the Three Months Ended January 25, 2015 and January 26, 2014</u>	<u>3</u>
<u>Consolidated Condensed Statements of Comprehensive Income for the Three Months Ended January 25, 2015 and January 26, 2014</u>	<u>4</u>
<u>Consolidated Condensed Balance Sheets at January 25, 2015 and October 26, 2014</u>	<u>5</u>
<u>Consolidated Condensed Statement of Stockholders' Equity for the Three Months Ended January 25, 2015 and January 26, 2014</u>	<u>6</u>
<u>Consolidated Condensed Statements of Cash Flows for the Three Months Ended January 25, 2015 and January 26, 2014</u>	<u>7</u>
<u>Notes to Consolidated Condensed Financial Statements</u>	<u>8</u>
Item 2: <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
Item 4: <u>Controls and Procedures</u>	<u>53</u>
PART II. OTHER INFORMATION	
Item 1: <u>Legal Proceedings</u>	<u>54</u>
Item 1A: <u>Risk Factors</u>	<u>54</u>
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>65</u>
Item 6: <u>Exhibits</u>	<u>66</u>
<u>Signatures</u>	<u>67</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(Unaudited)	
	(In millions, except per share amounts)	
Net sales	\$2,359	\$2,190
Cost of products sold	1,400	1,299
Gross profit	959	891
Operating expenses:		
Research, development and engineering	351	356
Marketing and selling	111	109
General and administrative	117	120
Gain on derivatives associated with announced business combination	(78)	(24)
Total operating expenses	501	561
Income from operations	458	330
Interest expense	23	25
Interest and other income, net	2	10
Income before income taxes	437	315
Provision for income taxes	89	62
Net income	\$348	\$253
Earnings per share:		
Basic and diluted	\$0.28	\$0.21
Weighted average number of shares:		
Basic	1,224	1,206
Diluted	1,240	1,225
See accompanying Notes to Consolidated Condensed Financial Statements.		

Table of Contents

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(Unaudited)	
	(In millions)	
Net income	\$348	\$253
Other comprehensive income (loss), net of tax:		
Change in unrealized net gain on investments	(1)	(3)
Change in unrealized net gain on derivative investments	1	(1)
Change in cumulative translation adjustments	(1)	(2)
Other comprehensive income (loss), net of tax	(1)	(6)
Comprehensive income	\$347	\$247
See accompanying Notes to Consolidated Condensed Financial Statements.		

Table of ContentsAPPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

January 25, 2015 October 26, 2014

(In millions)

ASSETS

Current assets:

Cash and cash equivalents	\$2,929	\$3,002
Short-term investments	158	160
Accounts receivable, net	1,580	1,670
Inventories	1,641	1,567
Other current assets	625	568
Total current assets	6,933	6,967
Long-term investments	930	935
Property, plant and equipment, net	864	861
Goodwill	3,304	3,304
Purchased technology and other intangible assets, net	905	951
Deferred income taxes and other assets	137	156
Total assets	\$13,073	\$13,174

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$1,737	\$1,883
Customer deposits and deferred revenue	784	940
Total current liabilities	2,521	2,823
Long-term debt	1,947	1,947
Other liabilities	533	536
Total liabilities	5,001	5,306
Stockholders' equity:		
Common stock	12	12
Additional paid-in capital	6,364	6,384
Retained earnings	13,297	13,072
Treasury stock	(11,524)	(11,524)
Accumulated other comprehensive loss	(77)	(76)
Total stockholders' equity	8,072	7,868
Total liabilities and stockholders' equity	\$13,073	\$13,174

Amounts as of January 25, 2015 are unaudited. Amounts as of October 26, 2014 are derived from the October 26, 2014 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

APPLIED MATERIALS, INC

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

Three Months Ended January 25, 2015	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			Shares	Amount		
	(Unaudited) (In millions)							
Balance at October 26, 2014	1,221	\$12	\$6,384	\$13,072	717	\$(11,524)	\$ (76)	\$7,868
Net income	—	—	—	348	—	—	—	348
Other comprehensive loss, net of tax	—	—	—	—	—	—	(1)	(1)
Dividends	—	—	—	(123)	—	—	—	(123)
Share-based compensation	—	—	48	—	—	—	—	48
Issuance under stock plans, net of a tax benefit of \$39 and other	8	—	(68)	—	—	—	—	(68)
Balance at January 25, 2015	1,229	\$12	\$6,364	\$13,297	717	\$(11,524)	\$ (77)	\$8,072
Three Months Ended January 26, 2014	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			Shares	Amount		
	(Unaudited) (In millions)							
Balance at October 27, 2013	1,204	\$12	\$6,151	\$12,487	717	\$(11,524)	\$ (38)	\$7,088
Net income	—	—	—	253	—	—	—	253
Other comprehensive loss, net of tax	—	—	—	—	—	—	(6)	(6)
Dividends	—	—	—	(121)	—	—	—	(121)
Share-based compensation	—	—	46	—	—	—	—	46
Issuance under stock plans, net of a tax benefit of \$18 and other	7	—	(19)	—	—	—	—	(19)
Balance at January 26, 2014	1,211	\$12	\$6,178	\$12,619	717	\$(11,524)	\$ (44)	\$7,241

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(Unaudited)	
	(In millions)	
Cash flows from operating activities:		
Net income	\$348	\$253
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	92	94
Unrealized gain on derivatives associated with announced business combination	(78)	(24)
Share-based compensation	48	46
Excess tax benefits from share-based compensation	(39)	(18)
Deferred income taxes and other	36	9
Changes in operating assets and liabilities:		
Accounts receivable	90	123
Inventories	(74)	(119)
Other assets	1	37
Accounts payable and accrued expenses	(156)	(106)
Customer deposits and deferred revenue	(156)	107
Income taxes payable	(39)	20
Other liabilities	(13)	(50)
Cash provided by operating activities	60	372
Cash flows from investing activities:		
Capital expenditures	(49)	(48)
Proceeds from sales and maturities of investments	140	