

APPLIED MATERIALS INC /DE
Form 10-Q
February 23, 2017
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 29, 2017
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 January 29, 2017: 1,079,831,003

Table of Contents

APPLIED MATERIALS, INC.
 FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JANUARY 29, 2017
 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 29, 2017 and January 31, 2016</u>	<u>3</u>
<u>Consolidated Condensed Statements of Comprehensive Income for the Three Months Ended January 29, 2017 and January 31, 2016</u>	<u>4</u>
<u>Consolidated Condensed Balance Sheets at January 29, 2017 and October 30, 2016</u>	<u>5</u>
<u>Consolidated Condensed Statement of Stockholders' Equity for the Three Months Ended January 29, 2017 and January 31, 2016</u>	<u>6</u>
<u>Consolidated Condensed Statements of Cash Flows for the Three Months Ended January 29, 2017 and January 31, 2016</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>32</u>
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
Item 4: <u>Controls and Procedures</u>	<u>50</u>
PART II. OTHER INFORMATION	
Item 1: <u>Legal Proceedings</u>	<u>51</u>
Item 1A: <u>Risk Factors</u>	<u>51</u>
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>62</u>
Item 6: <u>Exhibits</u>	<u>63</u>
<u>Signatures</u>	<u>64</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

	Three Months Ended	
	January 2017	February 31, 2016
	(Unaudited)	
Net sales	\$3,278	\$ 2,257
Cost of products sold	1,833	1,341
Gross profit	1,445	916
Operating expenses:		
Research, development and engineering	417	374
Marketing and selling	118	106
General and administrative	103	82
Total operating expenses	638	562
Income from operations	807	354
Interest expense	38	42
Interest and other income, net	2	2
Income before income taxes	771	314
Provision for income taxes	68	28
Net income	\$703	\$ 286
Earnings per share:		
Basic and diluted	\$0.65	\$ 0.25
Weighted average number of shares:		
Basic	1,078	1,146
Diluted	1,089	1,154

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

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

	Three Months Ended	
	January 2017	February 31, 2016
	(Unaudited)	
Net income	\$703	\$ 286
Other comprehensive income (loss), net of tax:		
Change in unrealized net gain on investments	1	1
Change in unrealized net loss on derivative instruments	15	(3)
Change in defined and postretirement benefit plans	(7)	—
Other comprehensive income (loss), net of tax	9	(2)
Comprehensive income	\$712	\$ 284

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

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

	January 29, 2017	October 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,491	\$ 3,406
Short-term investments	656	343
Accounts receivable, net	2,369	2,279
Inventories	2,281	2,050
Other current assets	297	275
Total current assets	9,094	8,353
Long-term investments	909	929
Property, plant and equipment, net	949	937
Goodwill	3,316	3,316
Purchased technology and other intangible assets, net	527	575
Deferred income taxes and other assets	449	460
Total assets	\$15,244	\$ 14,570

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable, notes payable and accrued expenses	\$2,139	\$ 2,256
Customer deposits and deferred revenue	1,669	1,376
Total current liabilities	3,808	3,632
Long-term debt	3,125	3,125
Other liabilities	624	596
Total liabilities	7,557	7,353
Stockholders' equity:		
Common stock	11	11
Additional paid-in capital	6,805	6,809
Retained earnings	15,847	15,252
Treasury stock	(14,870)	(14,740)
Accumulated other comprehensive loss	(106)	(115)
Total stockholders' equity	7,687	7,217
Total liabilities and stockholders' equity	\$15,244	\$ 14,570

Amounts as of January 29, 2017 are unaudited. Amounts as of October 30, 2016 are derived from the October 30, 2016 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			Shares	Amount		
Three Months Ended January 29, 2017								
	(Unaudited)							
Balance at October 30, 2016	1,078	\$ 11	\$ 6,809	\$ 15,252	889	\$(14,740)	\$ (115)	\$ 7,217
Net income	—	—	—	703	—	—	—	703
Other comprehensive income, net of tax	—	—	—	—	—	—	9	9
Dividends	—	—	—	(108)	—	—	—	(108)
Share-based compensation	—	—	54	—	—	—	—	54
Issuance under stock plans, net of a tax benefit of \$44 and other	6	—	(58)	—	—	—	—	(58)
Common stock repurchases	(4)	—	—	—	4	(130)	—	(130)
Balance at January 29, 2017	1,080	\$ 11	\$ 6,805	\$ 15,847	893	\$(14,870)	\$ (106)	\$ 7,687
Three Months Ended January 31, 2016								
	(Unaudited)							
Balance at October 25, 2015	1,160	\$ 11	\$ 6,575	\$ 13,967	793	\$(12,848)	\$ (92)	\$ 7,613
Net income	—	—	—	286	—	—	—	286
Other comprehensive loss, net of tax	—	—	—	—	—	—	(2)	(2)
Dividends	—	—	—	(111)	—	—	—	(111)
Share-based compensation	—	—	54	—	—	—	—	54
Issuance under stock plans, net of a tax benefit of \$10 and other	6	—	(47)	—	—	—	—	(47)
Common stock repurchases	(35)	—	—	—	35	(625)	—	(625)
Balance at January 31, 2016	1,131	\$ 11	\$ 6,582	\$ 14,142	828	\$(13,473)	\$ (94)	\$ 7,168

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

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

	Three Months Ended	
	January 2017	January 31, 2016
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$703	\$ 286
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	97	96
Share-based compensation	54	54
Excess tax benefits from share-based compensation	(44)	(10)
Deferred income taxes	25	15
Other	9	10
Changes in operating assets and liabilities:		
Accounts receivable	(89)	113
Inventories	(231)	(2)
Other current and non-current assets	(42)	(14)
Accounts payable and accrued expenses	(158)	(423)