

APPLIED MATERIALS INC /DE

Form 11-K

June 22, 2017

Table of contents

---

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

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-6920

Applied Materials, Inc. Employee Savings and Retirement Plan

(Full title of the plan)

APPLIED MATERIALS, INC.

3050 Bowers Avenue, P.O. Box 58039

Santa Clara, California 95052-8039

(Name of issuer of the securities held pursuant to the plan and the address of the issuer's and plan's principal executive office)

---

---

---

Table of contents

APPLIED MATERIALS, INC.  
EMPLOYEE SAVINGS AND RETIREMENT PLAN

Table of Contents

	Page number
<u>Report of Independent Registered Public Accounting Firm</u>	<u>1</u>
Financial Statements:	
<u>Statements of Net Assets Available for Benefits as of December 31, 2016 and 2015</u>	<u>2</u>
<u>Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2016</u>	<u>3</u>
<u>Notes to Financial Statements</u>	<u>4</u>
Supplementary Information:	
<u>Schedule H, Part IV, Line 4i - Schedule of Assets (Held at End of Year) as of December 31, 2016</u>	<u>14</u>
<u>Signature</u>	<u>16</u>
<u>Exhibit Index</u>	<u>17</u>

---

Table of contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and Administrative Committee of the  
Applied Materials, Inc. Employee Savings and Retirement Plan  
Santa Clara, California

We have audited the accompanying statements of net assets available for benefits of the Applied Materials, Inc. Employee Savings and Retirement Plan (the "Plan") as of December 31, 2016 and 2015, and the related statement of changes in net assets available for benefits for the year ended December 31, 2016. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of the internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2016 and 2015, and the changes in net assets available for benefits for the year ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

The supplemental information in the accompanying schedule of assets (held at end of year) as of December 31, 2016 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but includes supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information in the accompanying schedule, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information in the accompanying schedule is fairly stated in all material respects in relation to the financial statements as a whole.

ARMANINO<sup>LLP</sup>  
San Francisco, California

June 22, 2017

1

---

Table of contents

APPLIED MATERIALS, INC.  
 EMPLOYEE SAVINGS AND RETIREMENT PLAN  
 STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31, 2016	December 31, 2015
(In thousands)		
<b>ASSETS</b>		
Investments, at fair value		
Mutual funds	\$625,379	\$545,776
Applied common stock	346,870	277,594
Common/collective trusts	1,025,467	931,673
Unitized stock funds	137,515	113,058
	2,135,231	1,868,101
Guaranteed investment contracts, at contract value	268,816	217,382
Total investments	2,404,047	2,085,483
Receivables:		
Notes receivable from participants	21,078	20,466
Employer contribution receivable	2,526	2,335
Total receivables	23,604	22,801
Total assets	2,427,651	2,108,284
<b>LIABILITIES</b>		
Expenses payable	(236)	(172)
Total liabilities	(236)	(172)
Net assets available for benefits	\$2,427,415	\$2,108,112

See accompanying notes to financial statements.

Table of contents

APPLIED MATERIALS, INC.  
 EMPLOYEE SAVINGS AND RETIREMENT PLAN  
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Year ended December 31, 2016 (In thousands)
Additions to net assets attributed to:	
Investment and other income:	
Net realized and unrealized appreciation in the fair value of investments	\$295,898
Dividends and interest	21,759
Total investment and other income	317,657
Contributions:	
Participant	84,001
Rollovers	10,259
Employer	37,007
Total contributions	131,267
Withdrawals, distributions and expenses	(129,621 )
Net increase in net assets	319,303
Net assets available for benefits:	
Beginning of year	2,108,112
End of year	\$2,427,415

See accompanying notes to financial statements.

Table of contents

APPLIED MATERIALS, INC.  
EMPLOYEE SAVINGS AND RETIREMENT PLAN  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Significant accounting policies

General

The following description of the Applied Materials, Inc. (Applied) Employee Savings and Retirement Plan (the Plan) provides only general information. Participants seeking more detailed information about the Plan should refer to the Plan document and the Summary Plan Description/Prospectus for the Plan.

The Plan is a defined contribution plan that Applied established in 1981 to provide benefits to eligible employees, as provided in the Plan document. The Plan covers all eligible United States and certain expatriate employees of Applied and its participating affiliates. Eligible employees may enroll in the Plan after receipt of their first paycheck.

The Plan is intended to qualify as a profit-sharing plan as described in Section 401(a) of the Internal Revenue Code of 1986 (the Code), which includes a qualified cash or deferred arrangement as described in Section 401(k) of the Code. In addition, the Applied Materials, Inc. Common Stock Fund under the Plan (the Stock Fund) is intended to constitute an employee stock ownership plan as described in Section 4975(e)(7) of the Code. The Plan is also intended to comply with the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Plan administration

Under ERISA, Applied is the designated administrator of the Plan. An administrative committee (the 401(k) Committee) and its authorized delegates manage the day-to-day operation and administration of the Plan on behalf of Applied. The 401(k) Committee members consist of certain Applied employees who do not report directly to Applied's Chief Executive Officer, as specified in the Plan. Applied has contracted with Fidelity Institutional Retirement Services Company (Fidelity) to maintain the Plan's individual participant accounts and provide certain other recordkeeping and administrative services, and with Fidelity Management Trust Company (Fidelity Trust) to act as the Plan's custodian and trustee. Applied currently pays a portion of the expenses incurred in the administration of the Plan. Other expenses associated with the administration of the Plan are charged against the Plan and paid from Plan assets. Fees related to the administration of notes receivable from participants are charged directly to the respective participant's account and are included in administrative expenses. Effective January 1, 2016, Plan participants pay an annual flat fee (deducted quarterly from their accounts in the Plan) for the Plan's cost of recordkeeping. Withdrawal fees are paid by Plan participants who elect to receive certain types of withdrawals. Fees are also paid by Plan participants who request overnight mail of documents or review of a qualified domestic relations order.

Brokerage commission fees associated with transactions in the Stock Fund are paid by Plan participants who transact in the Stock Fund. Gross total administrative expenses amounted to \$905 thousand and \$388 thousand in 2016 and 2015, respectively. These amounts were reduced by \$254 thousand and \$113 thousand, respectively, as a result of revenue sharing credits that the Plan received. These fees are insignificant to these financial statements, and are therefore reported as withdrawals. Other brokerage commissions and other charges incurred in connection with investment transactions under the Plan are paid from Plan assets and are included as a reduction in investment income.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported

amounts of assets and liabilities, and changes therein, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Basis of accounting

The financial statements of the Plan are prepared using the accrual method of accounting. Participant contributions and Applied matching contributions are recorded in the period during which Applied withholds the applicable payroll deductions from participants' eligible earnings. Benefits are recorded when paid.



Plan year

The Plan year is the twelve-consecutive month period beginning each January 1 and ending December 31.

Investments

Plan assets are held in trust by Fidelity Trust and are invested in the investment options available under the Plan based solely upon instructions received from Plan participants or as provided in the Plan document. Except as described below, the Plan's investments are valued at fair value, as measured by quoted market prices, as of the last business day of the Plan year. Purchases and sales of securities are recorded on a trade-date basis and dividends are recorded on the ex-dividend date.

The BNY Mellon Stable Value Fund (the Stable Value Fund) is a separate account that holds investments solely for the benefit of the Plan participants. The Stable Value Fund holds a short term investment fund and fixed maturity and constant duration synthetic guaranteed investment contracts (GICs). The investments in synthetic GICs are presented at contract value.

In determining the net assets available for benefits, synthetic GICs are recorded at their contract values, which are equal to principal balance plus accrued interest. An investment contract is generally valued at contract value which represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

Certain employer initiated events (e.g., layoffs, bankruptcy, plant closings, plan termination, mergers, early retirement incentives, employer communications designed to induce participants to transfer from the Stable Value Fund, competing fund transfer or violation of equity wash or equivalent rules in place and changes of qualification status of the employer or the Plan) are not eligible for book value disbursements even from fully benefit-responsive contracts. These events may cause liquidation of all or a portion of a synthetic GIC at a market value adjustment. If the likelihood of such a non-book value withdrawal event is imminent, it may be necessary to consider revaluation of those particular synthetic GICs. In general, synthetic GIC issuers may terminate the contract and settle at other than contract value if the qualification status of the employer or the Plan changes, or there is a breach of material obligations under the contract or misrepresentation of the contract holder, or failure of the underlying portfolio to conform to the pre-established investment guidelines.

The Stable Value Fund was made up of the following investment types at December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
	(In thousands)	
Investment type:		
Short term investment fund	\$16,817	\$10,402
Fixed maturity synthetic GICs	35,711	29,622
Constant duration synthetic GICs	216,288	177,358
	\$268,816	\$217,382

The short term investment fund is made up of cash, a portfolio of U.S. Government securities and/or repurchase agreements that are collateralized fully by either cash or government securities.

Generally, fixed maturity synthetic GICs consist of an asset or collection of assets that are owned by the Plan and a benefit-responsive, book value wrap contract. The wrap contract provides book value accounting for the asset and

assures that book value, benefit-responsive payments will be made for participant-directed withdrawals. The crediting rate for the wrap contract is set at the beginning of the wrap contract period and typically resets every quarter. Generally, fixed maturity synthetic GICs are held to maturity. The initial crediting rate is established based on market interest rates at the time the initial asset is purchased.

Generally, constant duration synthetic GICs consist of a portfolio of securities owned by the Plan and a benefit-responsive, book value wrap contract. The wrap contract amortizes gains and losses of the underlying securities over the contract duration, and assures that book value, benefit-responsive payments are made for participant-directed withdrawals. The crediting rate on a constant duration synthetic GIC resets every quarter based on the book value of the contract and the market value of the underlying securities over the duration of the contract and therefore will be affected by movements in interest rates and changes in the market value of the underlying securities. The initial crediting rate is established based on market interest rates at the time the underlying portfolio of securities is put together.

The Stable Value Fund is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The synthetic GICs issuers are contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan.

#### Notes receivable from participants

Notes receivable from participants (notes receivable) are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable are reclassified as distributions upon the occurrence of a distributable event based upon the Plan's terms.

#### Income taxes

The Plan is intended to qualify for favorable federal and state income tax treatment accorded to plans that qualify under Section 401(a) of the Code, and therefore is intended to be exempt from federal income and state franchise taxes. The Plan has been amended subsequent to receipt of its most recent Internal Revenue Service (IRS) favorable determination letter dated September 24, 2013. The 401(k) Committee continues to believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

U.S. GAAP requires the Plan's management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon an examination by the IRS. No uncertain positions have been identified that would require the recognition of a tax liability (or asset) or disclosure in the financial statements as of December 31, 2016 and 2015. The Plan is subject to routine audits by applicable taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

#### Risks and uncertainties

The Plan provides participants with investment options consisting of various mutual funds, common/collective trusts, separate accounts and the Stock Fund (which invests solely in shares of Applied common stock (Shares)). The mutual funds, common/collective trust and separate accounts offered under the Plan invest in stocks, bonds and other investment securities. Shares and other investment securities are exposed to risks, such as those associated with interest rates, market conditions and credit worthiness of the securities' issuers. These risks could materially affect participants' Plan account balances and the amounts reported in these financial statements.

#### Note 2 - Fair value measurements

The fair value measurements standard establishes a framework for measuring fair value. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the

standard are described below:

Level 1 - Quoted market prices for identical assets or liabilities that the Plan has the ability to access.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

6

---

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for fair value measurements of the Plan's investments. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Mutual funds and shares in the Stock Fund are valued at the closing price reported on the active market on which these securities are traded.

The Fidelity Institutional Asset Management Core Plus Commingled Pool Class F Fund, the Fidelity Growth Company Commingled Pool, the Fidelity Contrafund Commingled Pool, the T. Rowe Price Growth Stock Trust Class B, the Vanguard Target Retirement Income Trust II Fund and the various Vanguard Target Retirement Date Trust II funds, classified as common/collective trusts, are valued using their respective net asset value (NAV) practical expedient provided by the managers of the funds. The NAV practical expedient is based on the value of the underlying net assets owned by the applicable fund divided by the number of shares outstanding. These investments are not available in an exchange and active market, however, the fair values are determined based on the underlying investments as traded in an exchange and active market.

The