

APPLIED MATERIALS INC /DE
Form 10-Q
August 23, 2012
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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 July 29, 2012
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
(State or other jurisdiction of
incorporation or organization)

94-1655526
(I.R.S. Employer
Identification No.)

3050 Bowers Avenue,
P.O. Box 58039
Santa Clara, California
(Address of principal executive offices)

95052-8039
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐
(Do not check if a 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 July 29, 2012: 1,237,495,151

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APPLIED MATERIALS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JULY 29, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(Unaudited)			
	(In millions, except per share amounts)			
Net sales	\$2,343	\$2,787	\$7,073	\$8,336
Cost of products sold	1,413	1,603	4,347	4,827
Gross margin	930	1,184	2,726	3,509
Operating expenses:				
Research, development and engineering	309	282	933	850
Selling, general and administrative	255	240	839	679
Restructuring charges and asset impairments (Note 11)	44	3	44	(30)
Gain on sale of facilities, net (Note 7)	—	(28)	—	(27)
Total operating expenses	608	497	1,816	1,472
Income from operations	322	687	910	2,037
Impairment of strategic investments (Notes 3 and 4)	—	—	3	—
Interest and other expenses	24	25	72	35
Interest and other income, net	4	7	13	33
Income before income taxes	302	669	848	2,035
Provision for income taxes	84	193	224	564
Net income	\$218	\$476	\$624	\$1,471
Earnings per share:				
Basic	\$0.17	\$0.36	\$0.49	\$1.11
Diluted	\$0.17	\$0.36	\$0.48	\$1.10
Weighted average number of shares:				
Basic	1,257	1,318	1,282	1,321
Diluted	1,268	1,330	1,292	1,333

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
	July 29,	July 31,	July 29,	July 31,
	2012	2011	2012	2011
	(Unaudited)			
	(In millions)			
Net income	\$218	\$476	\$624	\$1,471
Other comprehensive income, net of tax:				
Change in unrealized net gain (loss) on investments	(9	) (1	) (6	) (2
Change in unrealized net gain (loss) on derivative investments	(4	) (6	) (4	) (4
Change in defined benefit plan liability	—	—	—	(1
Change in cumulative translation adjustments	1	1	(1	) 1
Other comprehensive income (loss)	(12	) (6	) (11	) (6
Comprehensive income	\$206	\$470	\$613	\$1,465

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	July 29, 2012 (In millions)	October 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 3 and 4)	\$1,529	\$5,960
Short-term investments (Notes 3 and 4)	635	283
Accounts receivable, net (Note 6)	1,535	1,532
Inventories (Note 7)	1,380	1,701
Deferred income taxes, net	498	580
Other current assets	288	299
Total current assets	5,865	10,355
Long-term investments (Notes 3 and 4)	1,058	931
Property, plant and equipment, net (Note 7)	917	866
Goodwill (Notes 8 and 9)	3,939	1,335
Purchased technology and other intangible assets, net (Notes 8 and 9)	1,410	211
Deferred income taxes and other assets	131	163
Total assets	\$13,320	\$13,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	\$1,410	\$1,520
Customer deposits and deferred revenue (Note 7)	937	1,116
Income taxes payable	61	158
Total current liabilities	2,408	2,794
Long-term debt (Note 10)	1,946	1,947
Deferred income taxes and income taxes payable	386	104
Employee benefits and other liabilities	241	216
Total liabilities	4,981	5,061
Stockholders' equity (Note 12):		
Common stock	12	13
Additional paid-in capital	5,772	5,616
Retained earnings	13,323	13,029
Treasury stock	(10,763)	(9,864)
Accumulated other comprehensive income (loss)	(5)	6
Total stockholders' equity	8,339	8,800
Total liabilities and stockholders' equity	\$13,320	\$13,861

Amounts as of July 29, 2012 are unaudited. Amounts as of October 30, 2011 are derived from the October 30, 2011 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY

	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 30, 2011	1,306	\$ 13	\$ 5,616	\$ 13,029	573	\$(9,864)	\$ 6	\$ 8,800
Net income	—	—	—	624	—	—	—	624
Other comprehensive income (loss)	—	—	—	—	—	—	(11)	(11)
Dividends	—	—	—	(330)	—	—	—	(330)
Share-based compensation	—	—	138	—	—	—	—	138
Stock options assumed in connection with acquisition	—	—	11	—	—	—	—	11
Issuance under stock plans, net of tax detriment of \$15 and other	12	—	7	—	—	—	—	7
Common stock repurchases	(81)	(1)	—	—	81	(899)	—	(900)
Balance at July 29, 2012	1,237	\$ 12	\$ 5,772	\$ 13,323	654	\$(10,763)	\$ (5)	\$ 8,339

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	July 29, 2012	July 31, 2011
	(Unaudited)	
	(In millions)	
Cash flows from operating activities:		
Net income	\$624	\$1,471
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	325	187
Net loss (gain) on dispositions and fixed asset retirements	11	(24)
Provision for bad debts	9	—
Restructuring charges and asset impairments	44	(30)
Deferred income taxes	105	(100)
Net loss on investments and amortization on debt securities	16	13
Impairment of strategic investments	3	—
Share-based compensation	138	110
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	183	17
Inventories	571	(310)
Other current assets	43	(36)
Other assets	4	1
Accounts payable and accrued expenses	(356)	(92)
Customer deposits and deferred revenue	(230)	498
Income taxes payable	(49)	4
Employee benefits and other liabilities	(1)	19
Cash provided by operating activities	1,440	1,728
Cash flows from investing activities:		
Capital expenditures	(121)	(136)
Cash paid for acquisition, net of cash acquired	(4,189)	—
Proceeds from sale of facilities and dispositions, net of cash sold	—	126
Proceeds from sales and maturities of investments	765	1,173
Purchases of investments	(1,152)	(945)
Cash provided by (used in) investing activities	(4,697)	218
Cash flows from financing activities:		
Debt borrowings (repayments), net	(1)	1,744
Payments of debt issuance costs	—	(14)
Proceeds from common stock issuances	52	64
Common stock repurchases	(900)	(293)
Payments of dividends to stockholders	(323)	(291)
Cash provided by (used in) financing activities	(1,172)	1,210
Effect of exchange rate changes on cash and cash equivalents	(2)	4
Increase (decrease) in cash and cash equivalents	(4,431)	3,160
Cash and cash equivalents — beginning of period	5,960	1,858
Cash and cash equivalents — end of period	\$1,529	\$5,018
Supplemental cash flow information:		
Cash payments for income taxes	\$233	\$661

Cash refunds from income taxes	\$5	\$4
Cash payments for interest	\$87	\$7
See accompanying Notes to Consolidated Condensed Financial Statements.		

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 30, 2011 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Annual Report on Form 10-K for the fiscal year ended October 30, 2011 (2011 Form 10-K). Applied's results of operations for the three and nine months ended July 29, 2012 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2012 and 2011 each contain 52 weeks, and the first nine months of fiscal 2012 and 2011 each contained 39 weeks.

In November 2011, Applied completed its acquisition of Varian Semiconductor Equipment Associates, Inc. (Varian). Beginning in the first quarter of fiscal 2012, the acquired business is included in Applied's consolidated results of operations and the results of the Silicon Systems Group and Applied Global Services segments.

Use of Estimates

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

Revenue Recognition

Applied recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller's price to buyer is fixed or determinable; and collectability is probable. Applied's shipping terms are customarily FOB Applied shipping point or equivalent terms. Applied's revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment, Applied recognizes revenue upon shipment for all products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred, and that revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer technical acceptance; (3) for transactions where legal title does not pass at shipment, revenue is recognized when legal title passes to the customer, which is generally at customer technical acceptance; and (4) for arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. Applied limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment. In cases where Applied has sold products that have been demonstrated to meet product specifications prior to shipment, Applied believes that at the time of delivery, it has an enforceable claim to amounts recognized as revenue. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

When a sales arrangement contains multiple elements, such as hardware and services and/or software products, Applied allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Applied generally utilizes the ESP due to the nature of its products. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board amended its existing guidance for goodwill and other intangible assets. This authoritative guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. To perform a qualitative assessment, a company must identify and evaluate changes in economic, industry and company-specific events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. If a company determines that it is more likely than not that the fair value of such an asset exceeds its carrying amount, it would not need to calculate the fair value of the asset in that year. This authoritative guidance becomes effective for Applied in the first quarter of fiscal 2013, with early adoption permitted. The implementation of this authoritative guidance is not expected to have a material impact on Applied's financial position or results of operations.

Note 2 Earnings Per Share

Basic earnings per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, restricted stock units, and employee stock purchase plan shares) outstanding during the period. Applied's net income has not been adjusted for any period presented for purposes of computing basic or diluted earnings per share due to the Company's non-complex capital structure.

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions, except per share amounts)			
Numerator:				
Net income	\$218	\$476	\$624	\$1,471
Denominator:				
Weighted average common shares outstanding	1,257	1,318	1,282	1,321
Effect of dilutive stock options, restricted stock units and employee stock purchase plan shares	11	12	10	12
Denominator for diluted earnings per share	1,268	1,330	1,292	1,333
Basic earnings per share	\$0.17	\$0.36	\$0.49	\$1.11
Diluted earnings per share	\$0.17	\$0.36	\$0.48	\$1.10
Potentially dilutive securities	11	17	12	17

Potentially dilutive securities attributable to outstanding stock options and restricted stock units were excluded from the calculation of diluted earnings per share because the combined exercise price, average unamortized fair value and assumed tax benefits upon the exercise of options and the vesting of restricted stock units were greater than the average market price of Applied common stock, and therefore their inclusion would have been anti-dilutive.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 3 Cash, Cash Equivalents and Investments

Summary of Cash, Cash Equivalents and Investments

The following tables summarize Applied's cash, cash equivalents and investments by security type:

July 29, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	\$734	\$—	\$—	\$734
Cash equivalents:				
Money market funds	758	—	—	758
Municipal securities	19	—	—	19
Commercial paper, corporate bonds and medium-term notes	18	—	—	18
Total Cash equivalents	795	—	—	795
Total Cash and Cash equivalents	\$1,529	\$—	\$—	\$1,529
Short-term and long-term investments:				
U.S. Treasury and agency securities	\$399	\$1	\$—	\$400
Non-U.S. government securities*	55	—	—	55
Municipal securities	386	2	—	388
Commercial paper, corporate bonds and medium-term notes	413	3	—	416
Asset-backed and mortgage-backed securities	305	4	1	308
Total fixed income securities	1,558	10	1	1,567
Publicly traded equity securities	45	21	12	54
Equity investments in privately-held companies	72	—	—	72
Total short-term and long-term investments	\$1,675	\$31	\$13	\$1,693
Total Cash, Cash equivalents and Investments	\$3,204	\$31	\$13	\$3,222

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

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

October 30, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	\$297	\$—	\$—	\$297
Cash equivalents:				
Money market funds	5,663	—	—	5,663
Total Cash equivalents	5,663	—	—	5,663
Total Cash and Cash equivalents	\$5,960	\$—	\$—	\$5,960
Short-term and long-term investments:				
U.S. Treasury and agency securities	\$184	\$1	\$—	\$185
Non-U.S. government securities	40	—	—	40
Municipal securities	371	2	—	373
Commercial paper, corporate bonds and medium-term notes	216	3	1	218
Asset-backed and mortgage-backed securities	307	3	1	309
Total fixed income securities	1,118	9	2	1,125
Publicly traded equity securities	8	19	—	27
Equity investments in privately-held companies	62	—	—	62
Total short-term and long-term investments	\$1,188	\$28	\$2	\$1,214
Total Cash, Cash equivalents and Investments	\$7,148	\$28	\$2	\$7,174

Maturities of Investments

The following table summarizes the contractual maturities of Applied's investments at July 29, 2012:

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	\$600	\$600
Due after one through five years	652	658
Due after five years	1	1
No single maturity date**	422	434
	\$1,675	\$1,693

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

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Gains and Losses on Investments

Gross realized gains and losses on sales of investments during the three and nine months ended July 29, 2012 and July 31, 2011 were as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions)			
Gross realized gains	\$ 1	\$ 1	\$ 2	\$ 14
Gross realized losses	\$ 1	\$ 1	\$ 2	\$ 2

At July 29, 2012, Applied had a gross unrealized loss of \$1 million due to a decrease in the fair value of certain fixed income securities. Applied regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether an unrealized loss was considered to be temporary, or other-than-temporary and therefore impaired, include: the length of time and extent to which fair value has been lower than the cost basis; the financial condition, credit quality and near-term prospects of the investee; and whether it is more likely than not that Applied will be required to sell the security prior to recovery. Generally, the contractual terms of investments in marketable securities do not permit settlement at prices less than the amortized cost of the investments. Applied determined that the gross unrealized losses on its marketable securities at July 29, 2012 and July 31, 2011 were temporary in nature and therefore it did not recognize any impairment of its marketable securities for the three and nine months ended July 29, 2012 and July 31, 2011. During the nine months ended July 29, 2012, Applied determined that certain of its equity investments held in privately-held companies were other-than-temporarily impaired and, accordingly, recognized impairment charges of \$3 million. Applied did not recognize any impairment on its equity investments in privately-held companies for the three months ended July 29, 2012 or for three and nine months ended July 31, 2011.

The following table provides the fair market value of Applied's investments with unrealized losses that were not deemed to be other-than-temporarily impaired as of July 29, 2012.

	In Loss Position for Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In millions)			
Asset-backed and mortgage-backed securities	\$42	\$ 1	\$42	\$ 1
Publicly traded equity securities	14	12	14	12
Total	\$56	\$ 13	\$56	\$ 13

The following table provides the fair market value of Applied's investments with unrealized losses that were not deemed to be other-than-temporarily impaired as of October 30, 2011.

	In Loss Position for Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In millions)			
Commercial paper, corporate bonds and medium-term notes	\$32	\$ 1	\$32	\$ 1
Asset-backed and mortgage-backed securities	77	1	77	1

Total	\$ 109	\$ 2	\$ 109	\$ 2
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Unrealized gains and temporary losses on investments classified as available-for-sale are included within accumulated other comprehensive income (loss), net of any related tax effect. Upon realization, those amounts are reclassified from accumulated other comprehensive income (loss) to results of operations.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 4 Fair Value Measurements

Applied's financial assets are measured and recorded at fair value, except for equity investments held in privately-held companies. These equity investments are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when events or circumstances indicate that an other-than-temporary decline in value may have occurred. Applied's nonfinancial assets, such as goodwill, intangible assets, and property, plant and equipment, are recorded at cost and are assessed for impairment when events or circumstances indicate that an other-than-temporary decline in value may have occurred.

Fair Value Hierarchy

Applied uses the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 — Quoted prices in active markets for identical assets or liabilities;

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

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

Applied's investments are comprised primarily of debt securities that are classified as available-for-sale and recorded at their fair values. In determining the fair value of investments, Applied uses pricing information from pricing services that value securities based on quoted market prices and models that utilize observable market inputs. In the event a fair value estimate is unavailable from a pricing service, Applied generally obtains non-binding price quotes from brokers. Applied then reviews the information provided by the pricing services or brokers to determine the fair value of its short-term and long-term investments. In addition, to validate pricing information obtained from pricing services, Applied periodically performs supplemental analysis on a sample of securities. Applied reviews any significant unanticipated differences identified through this analysis to determine the appropriate fair value. Investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. As of July 29, 2012, substantially all of Applied's available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities (excluding cash balances) measured at fair value on a recurring basis are summarized below as of July 29, 2012 and October 30, 2011:

	July 29, 2012			October 30, 2011		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Money market funds	\$758	\$—	\$758	\$5,663	\$—	\$5,663
U.S. Treasury and agency securities	123	277	400	109	76	185
Non-U.S. government securities	—	55	55	—	40	40
Municipal securities	—	407	407	—	373	373
Commercial paper, corporate bonds and medium-term notes	—	434	434	—	218	218
Asset-backed and mortgage-backed securities	—	308	308	—	309	309
Publicly traded equity securities	54	—	54	27	—	27
Total	\$935	\$1,481	\$2,416	\$5,799	\$1,016	\$6,815
Liabilities:						
Deferred compensation	\$6	\$—	\$6	\$—	\$—	\$—
Total	\$6	\$—	\$6	\$—	\$—	\$—

The deferred compensation liability represents our obligation to pay benefits under a non-qualified deferred compensation plan. The related investments, held in a rabbi trust, consist of equity securities, primarily mutual funds, and are classified as Level 1 in the valuation hierarchy.

There were no transfers between Level 1 and Level 2 fair value measurements during either the three or nine months ended July 29, 2012 and July 31, 2011. Applied did not have any financial assets or liabilities measured at fair value on a recurring basis within Level 3 fair value measurements as of July 29, 2012 or October 30, 2011.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Equity investments in privately-held companies are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. If Applied determines that an other-than-temporary impairment has occurred, the investment will be written down to its estimated fair value based on available information, such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. Equity investments in privately-held companies totaled \$72 million at July 29, 2012, of which \$55 million of investments were accounted for under the cost method of accounting and \$17 million of Level 3 investments had been measured at fair value on a non-recurring basis due to an other-than-temporary decline in value. At October 30, 2011, equity investments in privately-held companies totaled \$62 million, of which \$40 million of investments were accounted for under the cost method of accounting and \$22 million of Level 3 investments had been measured at fair value on a non-recurring basis due to an other-than-temporary decline in value. During the three months ended July 29, 2012 and July 31, 2011, there were no transfers in and out of Level 3 equity investments in privately held companies. During the nine months ended July 29, 2012, Level 3 equity investments in privately-held companies of \$5 million were transferred to Level 1 assets measured at fair value on a recurring basis due to change in investee structure which improved price transparency. During the nine months ended July 31, 2011, there were no transfers in and out of Level 3 equity investments in privately held companies.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

During the nine months ended July 29, 2012, Applied determined that certain of its equity investments held in privately held companies were other-than-temporarily impaired and, accordingly, recognized impairment charges of \$3 million. Applied did not recognize any impairment on its equity method investments in privately-held companies for the three months ended July 29, 2012 and for the three and nine months ended July 31, 2011.

Other

The carrying amounts of Applied's financial instruments, including cash and cash equivalents, accounts receivable, notes payable, and accounts payable and accrued expenses, approximate fair value due to the short maturities of these financial instruments. At July 29, 2012, the carrying amount of long-term debt was \$1.9 billion and the estimated fair value was \$2.3 billion. The estimated fair value of long-term debt is determined by Level 2 inputs and is based on quoted market prices for the same or similar issues.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as Japanese yen, euro, Israeli shekel, Taiwanese dollar and Swiss franc. Applied uses derivative financial instruments, such as forward exchange contracts and currency option contracts, to hedge certain forecasted foreign currency denominated transactions expected to occur typically within the next 24 months. The purpose of Applied's foreign currency management is to mitigate the effect of exchange rate fluctuations on certain foreign currency denominated revenues, costs and eventual cash flows. The terms of currency instruments used for hedging purposes are generally consistent with the timing of the transactions being hedged. Applied does not use derivative financial instruments for trading or speculative purposes.

Derivative instruments and hedging activities, including foreign currency exchange contracts, are recognized on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of any hedges, are recognized currently in earnings. All of Applied's derivative financial instruments are recorded at their fair value in other current assets or in accounts payable and accrued expenses. Hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges and are typically entered into once per month. Cash flow hedges are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income or loss (AOCI) in stockholders' equity and is reclassified into earnings when the hedged transaction affects earnings. The majority of the after-tax net income or loss related to derivative instruments included in AOCI at July 29, 2012 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Both ineffective hedge amounts and hedge components excluded from the assessment of effectiveness are recognized promptly in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in selling, general and administrative expenses. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three and nine months ended July 29, 2012 and July 31, 2011.

Additionally, forward exchange contracts are generally used to hedge certain foreign currency denominated assets or liabilities. These derivatives are typically entered into once per month and are not designated for hedge accounting treatment. Accordingly, changes in the fair value of these hedges are recorded promptly in earnings to offset the changes in the fair value of the assets or liabilities being hedged.

The fair values of derivative instruments at July 29, 2012 and October 30, 2011 were not material.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The effect of derivative instruments on the Consolidated Condensed Statement of Operations for the three and nine months ended July 29, 2012 and July 31, 2011 was as follows:

		Three Months Ended July 29, 2012			Three Months Ended July 31, 2011		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing
Location of Gain or (Loss)	Gain or (Loss)	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized from AOCI into Income	Gain or (Loss)	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized from AOCI into Income	Gain or (Loss)
Reclassified from AOCI into Income	in AOCI	Income	in AOCI	Recognized from AOCI into Income	in AOCI	Income	Recognized from AOCI into Income
(In millions)							
Derivatives in Cash Flow							
Hedging Relationships							
Foreign exchange contracts	Cost of products sold	\$ (8)	\$ —	\$ (1)	\$ (7)	\$ 1	\$ (2)
Foreign exchange contracts	General and administrative	—	(2)	—	—	2	—
Total		\$ (8)	\$ (2)	\$ (1)	\$ (7)	\$ 3	\$ (2)

		Nine Months Ended July 29, 2012			Nine Months Ended July 31, 2011		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing
Location of Gain or (Loss)	Gain or (Loss)	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized from AOCI into Income	Gain or (Loss)	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized from AOCI into Income	Gain or (Loss)
Reclassified from AOCI into Income	in AOCI	Income	in AOCI	Recognized from AOCI into Income	in AOCI	Income	Recognized from AOCI into Income
(In millions)							
Derivatives in Cash Flow							
Hedging Relationships							
Foreign exchange contracts	Cost of products sold	\$ (3)	\$ 5	\$ (1)	\$ 5	\$ 6	\$ (5)
Foreign exchange contracts	General and administrative	—	(3)	(1)	—	5	(1)
Total		\$ (3)	\$ 2	\$ (2)	\$ 5	\$ 11	\$ (6)

		Amount of Gain or (Loss) Recognized in Income			
		Three Months Ended		Nine Months Ended	
	Location of Gain or (Loss) Recognized in Income	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
(In millions)					
Derivatives Not Designated as Hedging Instruments					
Foreign exchange contracts	General and administrative	\$(11) \$(5) \$3	\$(2
Total		\$(11) \$(5) \$3	\$(2

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Credit Risk Contingent Features

If Applied's credit rating were to fall below investment grade, it would be in violation of credit risk contingent provisions of the derivative instruments discussed above, and certain counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position was immaterial as of July 29, 2012.

Entering into foreign exchange contracts with banks exposes Applied to credit-related losses in the event of the banks' nonperformance. However, Applied's exposure is not considered significant.

Note 6 Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable and discount promissory notes from selected customers. Applied also discounts letters of credit through various financial institutions. Applied sells its accounts receivable without recourse. Details of discounted letters of credit, factored accounts receivable and discounted promissory notes for the three and nine months ended July 29, 2012 and July 31, 2011 were as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions)			
Discounted letters of credit	\$—	\$38	\$—	\$211
Factored accounts receivable and discounted promissory notes	—	25	70	80
Total	\$—	\$63	\$70	\$291

Financing charges on the sale of receivables and discounting of letters of credit are included in interest expense in the accompanying Consolidated Condensed Statements of Operations and were not material for both periods presented. Accounts receivable are presented net of allowance for doubtful accounts of \$82 million at July 29, 2012 and \$73 million at October 30, 2011. Applied sells principally to manufacturers within the semiconductor, display and solar industries. As a result of challenging economic and industry conditions, certain of these manufacturers may experience difficulties in meeting their obligations in a timely manner. While Applied believes that its allowance for doubtful accounts is adequate and represents Applied's best estimate as of July 29, 2012, Applied will continue to closely monitor customer liquidity and other economic conditions, which may result in changes to Applied's estimates regarding collectability.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 7 Balance Sheet Detail

	July 29, 2012 (In millions)	October 30, 2011
Inventories		
Customer service spares	\$318	\$328
Raw materials	302	407
Work-in-process	301	336
Finished goods*	459	630
	\$1,380	\$1,701

Included in finished goods inventory is \$88 million at July 29, 2012, and \$224 million at October 30, 2011, of newly-introduced systems at customer locations where the sales transaction did not meet Applied's revenue recognition criteria as set forth in Note 1, Basis of Presentation. Finished goods inventory also includes \$180 million and \$140 million of evaluation inventory at July 29, 2012 and October 30, 2011, respectively.

	Useful Life (In years)	July 29, 2012 (In millions)	October 30, 2011
Property, Plant and Equipment, Net			
Land and improvements		\$169	\$163
Buildings and improvements	3-30	1,195	1,155
Demonstration and manufacturing equipment	3-5	749	686
Furniture, fixtures and other equipment	3-15	733	722
Construction in progress		46	12
Gross property, plant and equipment		2,892	2,738
Accumulated depreciation		(1,975)	(1,872)
		\$917	\$866

During the third quarter of fiscal 2012, fixed asset impairment charges of \$11 million were recorded in relation to the Energy and Environmental Solutions segment restructuring plan, as discussed in Note 11, Restructuring Charges and Asset Impairments.

In the third quarter of fiscal 2011, Applied received \$60 million in proceeds from the sale of a property located in North America and recognized a gain of \$28 million on the transaction. Applied also completed the divestiture of certain assets held for sale for proceeds of \$27 million, net of cash sold. In the first quarter of fiscal 2011, Applied received \$39 million in proceeds from the sale of a property located in North America and incurred a loss of \$1 million on the transaction.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

	July 29, 2012 (In millions)	October 30, 2011
Accounts Payable and Accrued Expenses		
Accounts payable	\$443	\$484
Compensation and employee benefits	396	455
Warranty	137	168
Dividends payable	111	104
Other accrued taxes	49	81
Interest payable	14	31
Restructuring reserve	26	11
Other	234	186
	\$1,410	\$1,520

As of July 29, 2012, other accrued expenses included a \$13 million acquisition obligation for untendered Varian shares.

	July 29, 2012 (In millions)	October 30, 2011
Customer Deposits and Deferred Revenue		
Customer deposits	\$229	\$249
Deferred revenue	708	867
	\$937	\$1,116

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

Note 8 Business Combination

On November 10, 2011, Applied completed the acquisition of Varian, a public company manufacturer of semiconductor processing equipment and the leading supplier of ion implantation equipment used by chip makers around the world, for an aggregate purchase price of \$4.2 billion in cash, net of cash acquired and assumed earned equity awards of \$27 million, pursuant to an Agreement and Plan of Merger (the Merger Agreement) dated as of May 3, 2011. Applied's primary reasons for this acquisition were to complement existing product offerings and to provide opportunities for future growth. Varian designs, markets, manufactures and services ion implantation systems. These systems are primarily used in the manufacture of transistors, which are a basic building block of integrated circuits (ICs) or microchips. Ion implantation systems create a beam of electrically charged particles called ions, which are implanted into transistor structures at precise locations and depths, changing the electrical properties of the semiconductor device. These implantation systems may also be used in other areas of IC manufacture for modifying the material properties of the semiconductor devices, as well as in manufacturing crystalline-silicon solar cells. Applied allocated the purchase price of this acquisition to tangible and identifiable intangible assets acquired and liabilities assumed, based on their estimated fair values. Applied recorded \$2.6 billion in goodwill, which represented the excess of the purchase price over the aggregate estimated fair values of the assets acquired and liabilities assumed in the acquisition. Of this amount, \$1.8 billion of goodwill was allocated to the Silicon Systems Group segment, and the remainder was allocated to the Applied Global Services segment. Goodwill associated with the acquisition is

primarily attributable to the opportunities from the addition of Varian's product portfolio which complement Applied's Silicon Systems Group's suite of products, including providing integrated process solutions to customers. Goodwill is not deductible for tax purposes. A discussion of the revision made during the second quarter of fiscal 2012 to the initial preliminary purchase price allocation is included in Note 9, Goodwill, Purchased Technology and Other Intangible Assets. During the three months ended July 29, 2012, Applied completed the purchase price allocation for the Varian acquisition and no changes were made since the second quarter of fiscal 2012.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition date:

Estimated Fair Values	Acquisition 2012 (In millions)	
Cash and cash equivalents	\$632	
Short-term investments	56	
Accounts receivable, net	194	
Inventories	250	
Deferred income taxes and other current assets	66	
Long-term investments	62	
Property and equipment, net	104	
Goodwill	2,604	
Purchased intangible assets	1,365	
Other assets	10	
Total assets acquired	5,343	
Accounts payable and accrued expenses	(134))
Customer deposits and deferred revenue	(52))
Income taxes payable	(60))
Deferred income taxes	(211))
Other liabilities	(25))
Total liabilities assumed	(482))
Purchase price allocated	\$4,861	

The following table presents details of the purchase price as allocated to purchased intangible assets of Varian at the acquisition date:

	Useful Life (In years)	Purchased Intangible Assets 2012 (In millions)
Developed technology	1-7	\$987
Customer relationships	15	150
In-process technology		142
Patents and trademarks	10	69
Backlog	1	7
Covenant not to compete	2	10
Total purchased intangible assets		\$1,365

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The results of operations of Varian are included in Applied's consolidated results of operations, primarily in the results for the Silicon Systems Group and Applied Global Services segments, beginning in the first quarter of fiscal 2012. For the three months ended July 29, 2012, net sales of approximately \$294 million and operating income of approximately \$14 million attributable to Varian were included in the consolidated results of operations. For the nine months ended July 29, 2012, net sales of approximately \$829 million and operating loss of approximately \$117 million attributable to Varian were included in the consolidated results of operations. For the three and nine months ended July 29, 2012, results of operations included charges of \$53 million and \$275 million, respectively, attributable to inventory fair value adjustments on products sold, amortization of purchased intangible assets, share-based compensation associated with accelerated vesting, deal costs and other integration costs associated with the acquisition. Of these amounts, deal costs and other acquisition-related costs of \$1 million and \$38 million were not allocated to the segments for the three and nine months ended July 29, 2012, respectively. Deal costs are included in selling, general and administrative expenses in Applied's consolidated results of operations.

The following unaudited pro forma consolidated results of operations assume the acquisition was completed as of the beginning of the fiscal reporting periods presented. The pro forma consolidated results of operations for the three and nine months ended July 31, 2011 combine the results of Applied for the three and nine months ended July 31, 2011, with the results of Varian for the three and nine months ended July 1, 2011.

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions, except per share amounts)			
Net sales	\$2,343	\$3,115	\$7,073	\$9,276
Net income	\$227	\$495	\$730	\$1,453
Basic earnings per share	\$0.18	\$0.38	\$0.57	\$1.10
Diluted earnings per share	\$0.18	\$0.37	\$0.56	\$1.09

The pro forma results above include adjustments related to the purchase price allocation and financing of the acquisition, primarily to increase depreciation and amortization with the higher values of property, plant and equipment and identifiable intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition, and to reflect the related income tax effect. The pro forma results for the three and nine months ended July 31, 2011 include costs of \$4 million and \$121 million, respectively, which reduced net income due to inventory fair value adjustments on products sold, share-based compensation associated with accelerated vesting and acquisition-related costs, which are not expected to occur in future quarters. The pro forma information does not necessarily reflect the actual results of operations had the acquisition been consummated at the beginning of the fiscal reporting period indicated nor is it necessarily indicative of future operating results. The pro forma information does not include any potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 9 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

Applied's methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Applied assigns assets acquired (including goodwill) and liabilities assumed to one or more reporting units as of the date of acquisition. Typically, acquisitions relate to a single reporting unit and thus do not require the allocation of goodwill to multiple reporting units. If the products obtained in an acquisition are assigned to multiple reporting units, the goodwill is distributed to the respective reporting units as part of the purchase price allocation process.

Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment, especially in emerging markets. Applied regularly monitors current business conditions and other factors including, but not limited to, adverse industry or economic trends, restructuring actions and lower projections of profitability that may impact future operating results.

In fiscal 2011, Applied adopted authoritative guidance which allows entities to use a qualitative approach to test goodwill for impairment. This authoritative guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. In the first step of the two-step goodwill impairment test, Applied would compare the estimated fair value of each reporting unit to its carrying value. Applied's reporting units are consistent with the reportable segments identified in Note 16, Industry Segment Operations, based on the manner in which Applied operates its business and the nature of those operations. Applied determines the fair value of each of its reporting units based on a weighting of income and market approaches. Under the income approach, Applied calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Estimated future cash flows will be impacted by a number of factors including anticipated future operating results, estimated cost of capital and/or discount rates. Under the market approach, Applied estimates the fair value based on market multiples of revenue or earnings for comparable companies, as appropriate. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then Applied would perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. Applied would then allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, as if Applied had acquired the reporting unit in a business combination, with the fair value of the reporting unit being the "purchase price." The excess of the "purchase price" over the carrying amounts assigned to assets and liabilities represents the implied fair value of goodwill. If Applied determined that the carrying value of a reporting unit's goodwill exceeded its implied fair value, Applied would record an impairment charge equal to the difference.

Applied performed a qualitative assessment to test goodwill for impairment in the fourth quarter of fiscal 2011, and determined that it was more likely than not that each of its reporting units' fair value exceeded its carrying value and that it was not necessary to perform the two-step goodwill impairment test. Applied tested goodwill of the Energy and Environmental Solutions reporting unit for potential impairment during the second quarter of fiscal 2012 in light of second quarter developments that included current industry trends, financial performance, weaker short-term outlooks, and other adverse operating conditions within the solar industry. The results of the first step of the impairment test indicated that goodwill of the Energy and Environmental Solutions reporting unit was not impaired.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Applied utilized an equal weighting of both the discounted cash flow method of the income approach and the guideline company method of the market approach to estimate the fair value of the Energy and Environmental Solutions reporting unit. The results of the first step of the impairment test indicated that goodwill within the Energy and Environmental Solutions reporting unit was not impaired, as the estimated fair value in excess of carrying value was approximately \$700 million (or 73 percent over the carrying value of the reporting unit) at April 1, 2012. The evaluation of goodwill for impairment requires the exercise of significant judgment. The estimates used in the impairment testing were consistent with the discrete forecasts that Applied uses to manage its business, and considered the significant developments that occurred during the quarter. Under the discounted cash flow method, cash flows beyond the discrete forecasts were estimated using a terminal growth rate, which considered the long-term earnings growth rate specific to the Energy and Environmental Solutions reporting unit. The estimated future cash flows were discounted to present value using a discount rate that was the value-weighted average of the reporting unit's estimated cost of equity and debt derived using both known and estimated market metrics, and was adjusted to reflect risk factors that considered both the timing and risks associated with the estimated cash flows. The tax rate used in the discounted cash flow method reflected the international structure currently in place, which is consistent with the market participant perspective. Under the guideline company method, market multiples were applied to forecasted revenues and earnings before interest, taxes, depreciation and amortization. The market multiples used were consistent with the median multiples based on comparable publicly-traded companies. While there are inherent uncertainties related to the significant assumptions used and management's application of these assumptions in conducting the goodwill impairment analysis, Applied believes that the assumptions used provide a reasonable estimate of the fair value of the Energy and Environmental Solutions reporting unit. As discussed in Note 11, Restructuring Charges and Asset Impairments, on May 10, 2012, Applied announced a plan to restructure the Energy and Environmental Solutions segment. The restructuring did not have a significant impact on the fair value of the Energy and Environmental Solutions reporting unit.

Applied also tested goodwill of the Display reporting unit for potential impairment during the second quarter of fiscal 2012 in light of second quarter developments that included current industry trends, the Display reporting unit's financial performance and short-term outlook. The results of the first step of the impairment test indicated that goodwill of the Display reporting unit was not impaired and that the estimated fair value of the reporting unit was more than 100 percent over the carrying value of the reporting unit.

Although the business conditions in the industries in which the Display and Energy and Environmental Solutions reporting units operate remain weak, Applied is not aware of changes in the industries that would significantly impact the last impairment test performed in the second quarter of fiscal 2012. In the event of future changes in business conditions, Applied will be required to reassess and update its forecasts and estimates used in future impairment analyses. If the results of these analyses are lower than current estimates, a material impairment charge may result at that time.

During the first nine months of fiscal 2012, goodwill and other indefinite-lived intangible assets increased by \$2.7 billion due to the acquisition of Varian as discussed in Note 8, Business Combination. Of this amount, an adjustment of \$64 million to increase goodwill was recorded in the second quarter of fiscal 2012 related to the changes in net assets acquired from the Varian acquisition during the measurement period as Applied obtained the necessary information to compute the U.S. tax liability on undistributed earnings of non-U.S. subsidiaries as of the acquisition date. Of the total adjustment in the second quarter of fiscal 2012, \$44 million was allocated to the Silicon Systems Group segment and the remainder was allocated to the Applied Global Services segment.

A summary of Applied's purchased technology and intangible assets follows:

	July 29, 2012 (In millions)	October 30, 2011
Purchased technology, net	\$988	\$127

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Intangible assets - finite-lived, net	280	84
Intangible assets - indefinite-lived	142	—
Total	\$1,410	\$211

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Details of indefinite-lived intangible assets were as follows:

	July 29, 2012			October 30, 2011		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In millions)					
Silicon Systems Group	\$2,151	\$142	\$2,293	\$381	\$—	\$381
Applied Global Services	1,027	—	1,027	193	—	193
Display	116	—	116	116	—	116
Energy and Environmental Solutions	645	—	645	645	—	645
Carrying amount	\$3,939	\$142	\$4,081	\$1,335	\$—	\$1,335

Other intangible assets that are not subject to amortization consist primarily of in-process technology, which will be subject to amortization upon commercialization. The fair value assigned to in-process technology was determined using the income approach based on estimates and judgments regarding risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. If an in-process technology project is abandoned, the acquired technology attributable to the project will be written-off.

Finite-Lived Purchased Intangible Assets

Applied amortizes purchased intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from 1 to 15 years.

Applied evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. Applied assesses the fair value of the assets based on the amount of the undiscounted future cash flow that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the asset, plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When Applied identifies an impairment, Applied reduces the carrying value of the group of assets to comparable market values, when available and appropriate, or to its estimated fair value based on a discounted cash flow approach.

Intangible assets, such as purchased technology, are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. Applied evaluates the useful lives of its intangible assets each reporting period to determine whether events and circumstances require revising the remaining period of amortization. In addition, Applied reviews intangible assets for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. Management considers such indicators as significant differences in actual product acceptance from the estimates, changes in the competitive and economic environment, technological advances, and changes in cost structure.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Details of finite-lived intangible assets were as follows:

	July 29, 2012			October 30, 2011		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Silicon Systems Group	\$1,300	\$252	\$1,552	\$310	\$20	\$330
Applied Global Services	28	44	72	28	40	68
Display	110	33	143	110	33	143
Energy and Environmental Solutions	105	232	337	105	232	337
Gross carrying amount	\$1,543	\$561	\$2,104	\$553	\$325	\$878
Accumulated amortization:						
Silicon Systems Group	\$(373)	) \$(29)	) \$(402)	) \$(256)	) \$(8)	) \$(264)
Applied Global Services	(21)	) (38)	) (59)	) (20)	) (31)	) (51)
Display	(105)	) (27)	) (132)	) (102)	) (25)	) (127)
Energy and Environmental Solutions	(56)	) (187)	) (243)	) (48)	) (177)	) (225)
Accumulated amortization	\$(555)	) \$(281)	) \$(836)	) \$(426)	) \$(241)	) \$(667)
Carrying amount	\$988	\$280	\$1,268	\$127	\$84	\$211

During the nine months ended July 29, 2012, the change in gross carrying amount of the amortized intangible assets was approximately \$1.2 billion due to the acquisition of Varian as discussed in Note 8, Business Combination.

Details of amortization expense were as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions)			
Silicon Systems Group	\$45	\$3	\$138	\$10
Applied Global Services	1	2	8	6
Display	2	2	5	6
Energy and Environmental Solutions	6	6	19	18
Total	\$54	\$13	\$170	\$40

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

For the three and nine months ended July 29, 2012 and July 31, 2011, amortization expense was charged to the following categories:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions)			
Cost of products sold	\$44	\$9	\$141	\$27
Research, development and engineering	—	—	1	—
Selling, general and administrative	10	4	28	13
Total amortization expense	\$54	\$13	\$170	\$40

As of July 29, 2012, future estimated amortization expense is expected to be as follows:

	Amortization Expense (In millions)
2012	\$54
2013	209
2014	198
2015	184
2016	175
Thereafter	448
	\$1,268

Note 10 Borrowing Facilities and Long-Term Debt

Applied has credit facilities for unsecured borrowings in various currencies of up to \$1.6 billion, of which \$1.5 billion is comprised of a committed revolving credit agreement with a group of banks that was extended by one year in May 2012 and is scheduled to expire in May 2016. 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 29, 2012. Remaining credit facilities in the amount of approximately \$103 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 the credit facilities at July 29, 2012 or October 30, 2011 and Applied has not received any advances from these credit facilities.

Long-term debt outstanding was as follows:

	Principal Amount		Effective Interest Rate	Interest Payment Dates
	July 29, 2012	October 30, 2011		
	(In millions)			
2.650% Senior Notes Due 2016	\$400	\$400	2.666%	June 15, December 15
7.125% Senior Notes Due 2017	200	200	7.190%	April 15, October 15
4.300% Senior Notes Due 2021	750	750	4.326%	June 15, December 15
5.850% Senior Notes Due 2041	600	600	5.879%	June 15, December 15
Other debt	—	1		
	1,950	1,951		
Total unamortized discount	(4	) (4)	
Total long-term debt	\$1,946	\$1,947		

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At July 29, 2012, Applied was in compliance with all such covenants.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 11 Restructuring Charges and Asset Impairments

Applied records restructuring charges and asset impairments associated with management-approved restructuring plans to either reorganize one or more of Applied's business segments, or to remove duplicative headcount or infrastructure associated with business acquisitions.

On May 10, 2012, Applied announced a plan to restructure its Energy and Environmental Solutions segment in light of challenging industry conditions affecting the solar photovoltaic and light-emitting diode (LED) equipment markets. As part of the EES Restructuring Plan, Applied expects to relocate manufacturing, business operations and customer support functions of its precision wafering systems business and cease LED development activities. The EES Restructuring Plan also impacts certain LED support activities in the Applied Global Services segment. The total estimated pre-tax cost of implementing this plan is expected to be in the range of approximately \$70 million to \$100 million, which will be incurred over a period of 12 to 18 months beginning in the third quarter of fiscal 2012, and will be reported primarily in the Energy and Environmental Solutions segment. This estimate consists of: (i) up to \$30 million in fixed asset impairment charges; (ii) up to \$15 million of inventory-related charges; (iii) up to \$15 million in charges arising from lease terminations and other obligations, and (iv) up to \$40 million in severance and other employee-related costs. The EES Restructuring Plan will impact up to approximately 250 positions globally.

During the third quarter of fiscal 2012, Applied recognized \$9 million of severance and other employee-related costs in connection with the integration of Varian. These costs were reported in the Silicon Systems Group and Applied Global Services segments.

The following table summarizes the major components of restructuring charges and asset impairments:

	Three and Nine Months Ended July 29, 2012 (In millions)
EES Restructuring Plan	
Severance and other employee-related costs	\$24
Asset impairments	11
Varian Integration	
Severance and other employee-related costs	9
Total	\$44

In addition to the above, inventory-related charges of \$13 million related to the EES Restructuring Plan were recorded in cost of products sold during the three months ended July 29, 2012 and reported in the Energy and Environmental Solutions segment.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Restructuring charges and asset impairments by segment were as follows:

	Three and Nine Months Ended July 29, 2012 (In millions)
Silicon Systems Group	\$ 1
Applied Global Services	11
Energy and Environmental Solutions	32
Total	\$44

Changes in restructuring reserves related to the restructuring plans described above for the three months ended July 29, 2012 were as follows:

	Severance and other employee-related costs (In millions)
Balance, April 29, 2012	\$—
Provision for restructuring	33
Consumption of reserves	(6)
Foreign exchange	(1)
Balance, July 29, 2012	\$26

Certain severance and other employee-related costs have not been recognized as these costs are subject to negotiations with employees and employee representative bodies, and, as such, are not currently estimable.

Results for the nine months ended July 31, 2011 included favorable adjustments of \$36 million related to a restructuring plan announced on July 21, 2010, \$19 million related to a restructuring plan announced on November 11, 2009, and \$5 million related to a restructuring plan announced on November 12, 2008, partially offset by asset impairment charges of \$30 million primarily related to certain fixed and intangible assets.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 12 Stockholders' Equity, Comprehensive Income and Share-Based Compensation

Accumulated Other Comprehensive Income

Components of accumulated other comprehensive income, on an after-tax basis where applicable, were as follows:

	July 29, 2012	October 30, 2011
	(In millions)	
Pension liability	\$(25	) \$(25)
Unrealized gain (loss) on investments, net	11	17
Unrealized gain (loss) on derivative instruments	(4) —
Cumulative translation adjustments	13	14
	\$(5	) \$6

Stock Repurchase Program

On March 5, 2012, Applied's Board of Directors approved a new stock repurchase program authorizing up to \$3.0 billion in repurchases over the next three years ending in March 2015. Under this authorization, Applied purchases shares of its common stock under a systematic stock repurchase program and may also make supplemental stock repurchases from time to time, depending on market conditions, stock price and other factors. Applied's stock repurchase program authorized on March 8, 2010 was terminated concurrent with the start of the new repurchase program.

The following table summarizes Applied's stock repurchases for the three and nine months ended July 29, 2012 and July 31, 2011:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions, except per share amounts)			
Shares of common stock repurchased	47	2	81	20
Cost of stock repurchased	\$500	\$25	\$900	\$293
Average price paid per share	\$10.71	\$12.77	\$11.09	\$14.31
Dividends				

The following table summarizes the dividends declared during fiscal 2012:

Date Declared	Record Date	Payable Date	Amount per Share	Aggregate Amount (In millions)
December 6, 2011	February 23, 2012	March 15, 2012	\$0.08	\$103
March 5, 2012	May 24, 2012	June 14, 2012	\$0.09	\$115
June 12, 2012	August 23, 2012	September 13, 2012	\$0.09	\$111

Unpaid dividends were estimated based on the number of outstanding shares at the end of the fiscal quarter prior to the applicable record date.

Applied currently anticipates that it will continue to pay cash dividends on a quarterly basis in the future, although the declaration and amount of any future cash dividend are 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 that cash dividends are in the best interest of Applied and its stockholders.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Share-Based Compensation

Applied has adopted stock plans that permit grants to employees of share-based awards, including stock options, restricted stock, restricted stock units, performance shares and performance units. In addition, the Employee Stock Incentive Plan provides for the automatic grant of restricted stock units to non-employee directors and permits the grant of share-based awards to non-employee directors and consultants. Applied also has two Employee Stock Purchase Plans, one for United States employees and a second for international employees (collectively, ESPP), which enable eligible employees to purchase Applied common stock.

During the three and nine months ended July 29, 2012 and July 31, 2011, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock units, restricted stock, performance shares and performance units. Total share-based compensation and related tax benefits were as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions)			
Share-based compensation	\$42	\$38	\$138	\$110
Tax benefit recognized	\$12	\$11	\$39	\$33

The effect of share-based compensation on the results of operations for the three and nine months ended July 29, 2012 and July 31, 2011 was as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions)			
Cost of products sold	\$13	\$13	\$40	\$36
Research, development, and engineering	14	12	40	35
Selling, general and administrative	15	13	58	39
Total share-based compensation	\$42	\$38	\$138	\$110

The cost associated with share-based awards that are subject solely to time-based vesting requirements, less expected forfeitures, is recognized over the awards' service period for the entire award on a straight-line basis. The cost associated with performance-based equity awards is recognized for each tranche over the service period, based on an assessment of the likelihood that the applicable performance goals will be achieved.

At July 29, 2012, Applied had \$286 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of stock options, restricted stock units, restricted stock, performance units, performance shares and shares issued under Applied's ESPP, which will be recognized over a weighted average period of 2.6 years. On March 6, 2012, Applied's stockholders approved the amended and restated Employee Stock Incentive Plan, which included an increase of 125 million shares of Applied common stock available for issuance under the plan and other amendments to the plan. Also, upon approval of the amended and restated plan, the 2000 Global Equity Incentive Plan, which had approximately 76 million shares available for issuance, became unavailable for any future grants. At July 29, 2012, there were 194 million shares available for grants of stock options, restricted stock units, restricted stock, performance units, performance shares and other share-based awards under the Employee Stock Incentive Plan, and an additional 51 million shares available for issuance under the ESPP.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Stock Options

Applied grants options to purchase, at future dates, shares of its common stock to employees and consultants. The exercise price of each stock option equals the fair market value of Applied common stock on the date of grant. Options typically vest over three to four years, subject to the grantee's continued service with Applied through the scheduled vesting date, and expire no later than seven years from the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Applied's employee stock options have characteristics significantly different from those of publicly traded options. There were no stock options granted in the nine months ended July 29, 2012 and July 31, 2011.

Stock option activity for the nine months ended July 29, 2012 was as follows:

	Shares	Weighted Average Exercise Price
	(In millions, except per share amounts)	
Outstanding at October 30, 2011	30	\$13.05
Assumed in Varian acquisition	5	\$4.85
Exercised	(3)	) \$7.01
Canceled and forfeited	(9)	) \$16.70
Outstanding at July 29, 2012	23	\$10.73
Exercisable at July 29, 2012	22	\$11.00

Restricted Stock Units, Restricted Stock, Performance Shares and Performance Units

Restricted stock units are converted into shares of Applied common stock upon vesting on a one-for-one basis. Restricted stock has the same rights as other issued and outstanding shares of Applied common stock except these shares have no right to dividends and are held in escrow until the award vests. Performance shares and performance units are awards that result in a payment to a grantee in shares of Applied common stock on a one-for-one basis if performance goals and/or other vesting criteria established by the Human Resources and Compensation Committee of Applied's Board of Directors (the Committee) are achieved or the awards otherwise vest. Restricted stock units, restricted stock, performance shares and performance units typically vest over four years and vesting usually is subject to the grantee's continued service with Applied and, in some cases, achievement of specified performance goals. The compensation expense related to the service-based awards is determined using the fair market value of Applied common stock on the date of the grant, and the compensation expense is recognized over the vesting period.

Restricted stock units, restricted stock, performance shares and performance units granted to certain executive officers and other key employees are also subject to the achievement of specified performance goals (performance-based awards). These performance-based awards become eligible to vest only if performance goals are achieved and then actually will vest only if the grantee remains employed by Applied through each applicable vesting date.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

For performance-based awards granted during fiscal 2011 and 2010, the performance goals require (i) the achievement of targeted annual, adjusted operating profit margin levels compared to Applied's peer companies in at least one of the four fiscal years beginning with the fiscal year of the grant, and (ii) that Applied's annual adjusted operating profit margin is positive in such year. An award that has become eligible for time-based vesting based on achievement of the performance goals will vest over approximately four years from the date of grant, provided that the grantee remains employed by Applied through each scheduled vesting date. Performance-based awards that do not become eligible for time-based vesting in a particular year may become eligible for time-based vesting in subsequent years up until the fourth fiscal year after grant, after which they are forfeited if the required performance goals have not been achieved. During the nine months ended July 29, 2012, the Committee granted performance-based awards that require the achievement of positive and relative adjusted operating profit margin goals in a manner generally similar to the previously granted performance-based awards. For the fiscal 2012 awards, additional shares become eligible for time-based vesting depending on certain levels of achievement of Applied's total shareholder return (TSR) relative to a peer group comprised of companies in the Standard & Poor's 500 Information Technology Index measured at the end of a two-year period. The fair value of these performance-based awards is estimated on the date of the grant and assumes that the specified performance goals will be achieved. If the goals are achieved, these awards vest over a specified remaining service period of generally three or four years, provided that the grantee remain employed by Applied through each scheduled vesting date. If the performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed. The expected cost of each award is reflected over the service period and is reduced for estimated forfeitures.

As of July 29, 2012, 100 percent of the performance-based awards granted in fiscal 2011 had been earned based on performance and became subject to the additional time-based vesting requirements. As of July 29, 2012, 82 percent of the performance-based awards granted in fiscal 2010 had been earned based on performance and became subject to the additional time-based vesting requirements. The remaining 18 percent of the awards may still be earned, depending on future performance in one or both of fiscal years 2012 and 2013.

Restricted stock unit, restricted stock, performance share and performance unit activity for the nine months ended July 29, 2012 was as follows:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	
(In millions, except per share amounts)				
Non-vested restricted stock units, restricted stock and performance units at October 30, 2011	28	\$ 12.64	2.8	Years
Granted	19	\$ 10.61		
Vested	(8)	\$ 12.91		
Canceled	(2)	\$ 12.56		
Non-vested restricted stock units, restricted stock and performance units at July 29, 2012	37	\$ 11.54	2.8	Years

At July 29, 2012, 2 million additional performance-based awards could be earned upon certain levels of achievement of Applied's TSR relative to a peer group at a future date.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Employee Stock Purchase Plans

Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning or end of each 6-month purchase period, subject to certain limits. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was \$2.89 and \$3.61 for the nine months ended July 29, 2012 and July 31, 2011, respectively. The number of shares issued under the ESPP during each of the nine months ended July 29, 2012 and July 31, 2011 was 3 million. Compensation expense associated with the ESPP is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. Underlying assumptions used in the model are outlined in the following table:

	Nine Months Ended	
	July 29, 2012	July 31, 2011
ESPP:		
Dividend yield	2.94%	1.98%
Expected volatility	33%	27%
Risk-free interest rate	0.12%	0.17%
Expected life (in years)	0.5	0.5

Note 13 Employee Benefit Plans

Applied sponsors a number of employee benefit plans, including defined benefit plans of certain foreign subsidiaries, and a plan that provides certain medical and vision benefits to eligible retirees. A summary of the components of net periodic benefit costs of these defined and postretirement benefit plans for the three and nine months ended July 29, 2012 and July 31, 2011 is presented below:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions)			
Service cost	\$4	\$4	\$12	\$11
Interest cost	4	3	11	10
Expected return on plan assets	(2)	(3)	(8)	(8)
Amortization of actuarial loss	—	1	1	2
Net periodic benefit cost	\$6	\$5	\$16	\$15

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Note 14 Income Taxes

Applied's effective income tax rate for the third quarter of fiscal 2012 and fiscal 2011 was a provision of 27.8 percent and 28.8 percent, respectively. Applied's effective income tax rate for the first nine months of fiscal 2012 and fiscal 2011 was a provision of 26.4 percent and 27.7 percent, respectively. The rates for the three and nine months ended July 29, 2012 were both lower than the rates for the comparable periods in the prior year primarily due to changes in the composition of income in jurisdictions outside the U.S. with tax incentives. Applied's future effective income tax rate depends on various factors, such as tax legislation and the geographic composition of Applied's pre-tax income. Management carefully monitors these factors and timely adjusts the interim effective income tax rate accordingly. Applied's tax returns remain subject to examination by taxing authorities for fiscal 2005 and later years. The timing of the resolution of income tax examinations, as well as the amounts and timing of various tax payments that may be made as part of the resolution process, is highly uncertain and could cause an impact to Applied's consolidated results of operations. This could also cause large fluctuations in the balance sheet classification of current assets and non-current assets and liabilities. Applied expects that unrecognized tax benefits will decrease by \$9 million in the next 12 months. At July 29, 2012, non-current deferred taxes and income taxes payable increased \$282 million from October 30, 2011. The increase was principally attributable to the Varian acquisition.

Note 15 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three and nine months ended July 29, 2012 and July 31, 2011 were as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
(In millions)				
Beginning balance	\$152	\$184	\$168	\$155
Provisions for warranty	25	43	87	142
Consumption	(40)	(39)	(118)	(109)
Ending balance	\$137	\$188	\$137	\$188

Applied products are generally sold with a 12-month warranty period following installation. The provision for the estimated cost of warranty is recorded when revenue is recognized. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical experience by product, configuration and geographic region. Quarterly warranty consumption is generally associated with sales that occurred during the preceding four quarters, and quarterly warranty provisions are generally related to the current quarter's sales.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Guarantees

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of July 29, 2012, 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 29, 2012, Applied Materials, Inc. has provided parent guarantees to banks for approximately \$181 million to cover these services.

Legal Matters

Jusung

Applied has been engaged in several lawsuits and patent and administrative proceedings with Jusung Engineering Co., Ltd. and/or Jusung Pacific Co., Ltd. (Jusung) in Taiwan and South Korea since 2003, and more recently in China, involving technology used in manufacturing liquid crystal displays (LCDs). Applied believes that it has meritorious claims and defenses against Jusung that it intends to pursue vigorously.

In 2004, Applied filed a complaint for patent infringement against Jusung in the Hsinchu District Court in Taiwan seeking damages and a permanent injunction for infringement of a patent related to chemical vapor deposition (CVD) equipment. Jusung filed a counterclaim against Applied. On December 31, 2010, the Hsinchu District Court dismissed both actions, and appeals by both parties remain pending at the Taiwan Intellectual Property Court. Jusung unsuccessfully sought invalidation of Applied's CVD patent in the Taiwanese Intellectual Property Office (TIPO). In September 2010, the Taipei Supreme Administrative Court dismissed Jusung's appeal of the TIPO's decision. In 2009, Jusung filed a second action with the TIPO seeking invalidation of Applied's CVD patent, which action remains pending.

In November 2009, Applied filed an action in China with the Patent Reexamination Board of the State Intellectual Property Office seeking to invalidate a Jusung patent related to separability of the transfer chamber on a CVD tool. The Patent Reexamination Board invalidated Jusung's patent in China and Jusung's appeal was dismissed by the Beijing No. 1 Intermediate People's Court. Jusung appealed this decision to the Beijing High People's Court and on June 20, 2012, the Court rejected Jusung's appeal.

Korea Criminal Proceedings

In February 2010, the Seoul Prosecutor's Office for the Eastern District of Korea (the Prosecutor's Office) indicted employees of several companies for the alleged improper receipt and use of confidential information belonging to Samsung Electronics Co., Ltd. (Samsung), a major Applied customer based in Korea. The Prosecutor's Office did not name Applied or any of its subsidiaries as a party to the criminal action. The individuals charged included the former head of Applied Materials Korea (AMK), who at the time of the indictment was a vice president of Applied Materials, Inc., and certain other AMK employees. Hearings on these matters are ongoing in the Seoul Eastern District Court. Applied and Samsung entered into a settlement agreement effective as of November 1, 2010, to resolve potential civil claims related to this matter, which is separate from and does not affect the criminal proceedings.

From time to time, Applied receives notification from third parties, including customers and suppliers, seeking indemnification, litigation support, payment of money or other actions by Applied in connection with claims made against them. In addition, from time to time, Applied receives notification from third parties claiming that Applied may be or is infringing or misusing their intellectual property or other rights. Applied also is subject to various other legal proceedings and claims, both asserted and unasserted, that arise in the ordinary course of business.

Although the outcome of the above-described matters or these claims and proceedings cannot be predicted with certainty, Applied does not believe that any of these proceedings or other claims will have a material adverse effect on its consolidated financial condition or results of operations.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Environmental Matters

Liabilities for future remediation costs are recorded when environmental assessments and/or remedial efforts are probable and costs can be reasonably estimated. Environmental liabilities classified as current are included in accounts payable and accrued expenses with the non-current portion included in other liabilities. Generally, the timing of these accruals is based on the completion of a feasibility study or a commitment to a formal plan of action. Environmental liabilities are based on best estimates of probable undiscounted future costs based on currently available information. Should new information become available, the liability would be adjusted.

In connection with the acquisition of Varian, Applied assumed certain environmental liabilities, including environmental investigation and remediation costs. Environmental remediation costs incurred were not material for the three and nine months ended July 29, 2012. At July 29, 2012, Applied's environmental liability was \$9 million, of which \$8 million was classified as non-current and included in other liabilities. As part of accounting for the acquisition of Varian, Applied performed a review and assessment of the assumed environmental liabilities. Management believes that the liability arising from environmental-related matters is not material to Applied's consolidated financial position.

Prior to the acquisition, Varian had entered into a settlement agreement with an insurance company to pay a portion of the past and future environmental-related expenditures. Accordingly, as part of the acquisition, Applied recorded a receivable of \$2 million as of July 29, 2012, which is included in other assets.

Note 16 Industry Segment Operations

Applied's four reportable segments are: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. Applied's chief operating decision-maker has been identified as the Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company. Segment information is presented based upon Applied's management organization structure as of July 29, 2012, and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to Applied's reportable segments.

Each reportable segment is separately managed and has separate financial results that are reviewed by Applied's chief operating decision-maker. Each reportable segment contains closely related products that are unique to the particular segment. Segment operating income is determined based upon internal performance measures used by Applied's chief operating decision-maker.

Applied derives the segment results directly from its internal management reporting system. The accounting policies Applied uses to derive reportable segment results are substantially the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics including orders, net sales and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level, which include costs related to share-based compensation; certain management, finance, legal, human resources, and research, development and engineering functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions, unless these charges or adjustments pertain to a specific reportable segment. Segment operating income excludes interest income/expense and other financial charges and income taxes. Management does not consider the unallocated costs in measuring the performance of the reportable segments.

In November 2011, Applied completed its acquisition of Varian. Beginning in the first quarter of fiscal 2012, the acquired business is primarily included in the results for the Silicon Systems Group and Applied Global Services segments, with certain corporate functions included in corporate and unallocated costs.

The Silicon Systems Group segment includes semiconductor capital equipment for etch, rapid thermal processing, deposition, chemical mechanical planarization, metrology and inspection, wafer packaging, and ion implantation.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The Applied Global Services segment includes technically differentiated products and services to improve operating efficiency, reduce operating costs and lessen the environmental impact of semiconductor, display and solar customers' factories. Applied Global Services' products consist of spares, services, certain earlier generation products, remanufactured equipment, and products that have reached a particular stage in the product lifecycle. Customer demand for these products and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites.

The Display segment encompasses products for manufacturing LCDs, organic light-emitting diodes (OLEDs), and other display technologies for TVs, personal computers, tablets, smart phones, and other consumer-oriented devices.

The Energy and Environmental Solutions segment includes products for fabricating solar photovoltaic cells and modules, high throughput roll-to-roll coating systems for flexible electronics and web products.

Net sales and operating income (loss) for each reportable segment for the three and nine months ended July 29, 2012 and July 31, 2011 were as follows:

	Three Months Ended		Nine Months Ended	
	Net Sales	Operating Income (loss)	Net Sales	Operating Income (loss)
	(In millions)			
July 29, 2012				
Silicon Systems Group	\$1,545	\$427	\$4,666	\$1,202
Applied Global Services	579	122	1,664	338
Display	142	10	380	23
Energy and Environmental Solutions	77	(102)	363	(188)
Total Segment	\$2,343	\$457	\$7,073	\$1,375
July 31, 2011				
Silicon Systems Group	\$1,398	\$452	\$4,348	\$1,486
Applied Global Services	603	146	1,784	322
Display	223	58	528	116
Energy and Environmental Solutions	563	123	1,676	436
Total Segment	\$2,787	\$779	\$8,336	\$2,360

Operating results for the nine months ended July 31, 2011 included favorable adjustments of \$36 million related to a restructuring plan announced in fiscal 2010, which was reported in the Energy and Environmental Solutions segment. Operating results for the three and nine months ended July 29, 2012 included restructuring charges and asset impairments of \$35 million related to the restructuring program announced on May 10, 2012, of which \$32 million was reported in the Energy and Environmental Solutions segment and the remainder was reported in the Applied Global Services segment. Operating results for the three and nine months ended July 29, 2012 also included severance charges of \$9 million in connection with the integration of Varian, of which \$8 million was reported in the Applied Global Services segment and the remainder in the Silicon Systems Group segment.

In the second quarter of fiscal 2011, Applied negotiated the divestiture of certain assets held in the Applied Global Services segment and determined identified intangible assets and purchased technology included in assets held for sale to be impaired. Results for the nine months ended July 31, 2011 included impairment charges of \$24 million, which were reported in the Applied Global Services segment.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Reconciliations of total segment operating income to Applied's consolidated operating income for the three and nine months ended July 29, 2012 and July 31, 2011 were as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
	(In millions)			
Total segment operating income	\$457	\$779	\$1,375	\$2,360
Corporate and unallocated costs	(135	) (120	) (465	) (371
Restructuring and asset impairment benefit, net	—	—	—	21
Gain on sale of facilities, net	—	28	—	27
Income from operations	\$322	\$687	\$910	\$2,037

Corporate and unallocated costs for the three and nine months ended July 29, 2012 included deal costs and other acquisition-related costs related to the Varian acquisition of \$1 million and \$38 million, respectively.

The following companies accounted for at least 10 percent of Applied's net sales for the nine months ended July 29, 2012, which were for products in multiple reportable segments.

	July 29, 2012	
Samsung Electronics Co., Ltd .	23	%
Taiwan Semiconductor Manufacturing Company Limited	17	%

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

All statements in this Quarterly Report on Form 10-Q and those made by the management of Applied, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding Applied’s future financial or operating results, cash flows and cash deployment strategies, declaration of dividends, share repurchases, expected nature and impact of restructuring activities, business strategies, projected costs, products, competitive positions, management’s plans and objectives for future operations, research and development, acquisitions and joint ventures, growth opportunities, customers, working capital, liquidity, investment portfolio and policies, and legal proceedings and claims, as well as industry trends and outlooks. These forward-looking statements are based on management’s estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “potential” and “continue,” or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in Part II, Item 1A, “Risk Factors” below and elsewhere in this report. Other risks and uncertainties may be disclosed in Applied’s prior Securities and Exchange Commission (SEC) filings. These and many other factors could affect Applied’s future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Applied undertakes no obligation to revise or update any forward-looking statements.

Overview

Applied provides manufacturing equipment, services and software to the global semiconductor, flat panel display, and solar industries. Applied’s customers include manufacturers of semiconductor wafers and chips, flat panel liquid crystal displays (LCDs), crystalline silicon (c-Si) solar photovoltaic cells and modules (PVs), and other electronic devices. These customers may use what they manufacture in their own end products or sell the items to other companies for use in advanced electronic components. Applied operates in four reportable segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A summary of financial information for each reportable segment is found in Note 16 of Notes to Consolidated Condensed Financial Statements. A discussion of factors that could affect Applied’s operations is set forth under “Risk Factors” in Item 1A of Part II of this report, which is incorporated herein by reference. Product development and manufacturing activities occur primarily in North America, Europe, Israel and Asia. Applied’s broad range of equipment and service products are highly technical and are sold primarily through a direct sales force.

Applied’s results historically have been driven primarily by worldwide demand for semiconductors, which in turn depends on end-user demand for electronic products. Each of Applied’s businesses is subject to highly cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, LCDs, solar PVs and other electronic devices, as well as other factors, such as global economic and market conditions, and technological advances in fabrication processes. In light of this cyclicity, Applied’s results can vary significantly year over year, as well as quarter over quarter.

The first half of fiscal 2012 was characterized by strong demand for semiconductor equipment led by foundry customers while weakness continued in the display and solar industries. In the third quarter of fiscal 2012, demand for semiconductor equipment from foundry and logic customers softened as a result of a slowdown in the semiconductor industry and uncertain global economic conditions, while demand for display and solar equipment remained weak. Applied expects semiconductor equipment investments across all categories of customers to decline further in the fourth quarter of fiscal 2012, as fluctuations in consumer buying patterns and global macroeconomic uncertainties cause chipmakers to significantly delay their capital equipment spending until they see signs of stronger consumer demand. Applied also expects the low investment levels for display and solar equipment to continue in the fourth quarter of fiscal 2012 as conditions in those industries remain challenging.

Financial results for the third quarter and first nine months of fiscal 2012 compared to the prior year reflected decreased demand for display and solar equipment, partially offset by the addition of sales attributable to Varian

Semiconductor Equipment Associates, Inc. (Varian) and foundry customers.

Financial results for the third quarter of fiscal 2012 compared to the second quarter of fiscal 2012 reflected a decrease in both new orders and net sales, primarily from foundry and logic customers.

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The following tables present certain significant measurements for the periods indicated:

	Three Months Ended			Change	Change
	July 29, 2012	April 29, 2012	July 31, 2011	Q3 2012 over Q2 2012	Q3 2012 over Q3 2011
(In millions, except per share amounts and percentages)					
New orders	\$1,799	\$2,765	\$2,390	\$(966	) \$(591)
Net sales	\$2,343	\$2,541	\$2,787	\$(198	) \$(444)
Gross margin	\$930	\$1,011	\$1,184	\$(81	) \$(254)
Gross margin percent	39.7	% 39.8	% 42.5	% (0.1) point	(2.8) points
Operating income	\$322	\$409	\$687	\$(87	) \$(365)
Operating margin percent	13.7	% 16.1	% 24.7	% (2.4) points	(11.0) points
Net income	\$218	\$289	\$476	\$(71	) \$(258)
Diluted earnings per share	\$0.17	\$0.22	\$0.36	\$(0.05	) \$(0.19)
Non-GAAP Results					
Gross margin	\$974	\$1,070	\$1,193	\$(96	) \$(219)
Gross margin percent	41.6	% 42.1	% 42.8	% (0.5) point	(1.2) points
Operating income	\$431	\$490	\$683	\$(59	) \$(252)
Operating margin percent	18.4	% 19.3	% 24.5	% (0.9) point	(6.1) points
Net income	\$300	\$349	\$467	\$(49	) \$(167)
Diluted earnings per share	\$0.24	\$0.27	\$0.35	\$(0.03	) \$(0.11)
	Nine Months Ended			Change	
	July 29, 2012		July 31, 2011	YTD 2012 over YTD 2011	
(In millions, except per share amounts and percentages)					
New orders	\$6,572		\$8,547	\$(1,975)
Net sales	\$7,073		\$8,336	\$(1,263)
Gross margin	\$2,726		\$3,509	\$(783)
Gross margin percent	38.5	% 42.1		% (3.6) points	
Operating income	\$910		\$2,037	\$(1,127)
Operating margin percent	12.9	% 24.4		% (11.5) points	
Net income	\$624		\$1,471	\$(847)
Diluted earnings per share	\$0.48		\$1.10	\$(0.62)
Non-GAAP Results					
Gross margin	\$2,935		\$3,536	\$(601)
Gross margin percent	41.5	% 42.4		% (0.9) point	
Operating income	\$1,266		\$2,026	\$(760)
Operating margin percent	17.9	% 24.3		% (6.4) points	
Net income	\$889		\$1,452	\$(563)
Diluted earnings per share	\$0.69		\$1.09	\$(0.40)

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

Fiscal years 2012 and 2011 are both 52-week years with 39 weeks in the first nine months.

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In November 2011, Applied completed its acquisition of Varian. As of the beginning of the first quarter of fiscal 2012, the acquired business is included in Applied's consolidated results of operations and in results for the Silicon Systems Group and Applied Global Services segments. For the three and nine months ended July 29, 2012, net sales attributable to Varian were \$294 million and \$829 million, respectively.

Results for the third quarter of fiscal 2012 included \$44 million of restructuring and asset impairment charges, consisting of \$35 million of costs associated with the restructuring of the Energy and Environmental Solutions segment announced on May 10, 2012 and \$9 million of costs related to Varian integration activities.

Operating income in the third quarter of fiscal 2012 included \$53 million of charges attributable to the acquisition of Varian consisting of amortization of purchased intangible assets and integration costs. Of this amount, \$36 million was recorded under cost of products sold and \$17 million was included in operating expenses.

Operating income for the first nine months of fiscal 2012 included \$275 million of expenses attributable to the acquisition of Varian. Of this amount, \$183 million was recorded under cost of products sold and \$92 million was included in operating expenses. Operating expenses also included \$38 million of deal costs and other acquisition-related costs, which were not allocated to the segments. Operating income in the third quarter of fiscal 2011 included \$3 million of asset impairment charges, while the first nine months of fiscal 2011 included \$30 million of favorable adjustments to restructuring reserves, net of asset impairment charges.

Results of Operations

New Orders

New orders by geographic region, determined by the product shipment destination specified by the customer, for the periods indicated were as follows:

	Three Months Ended								Change	Change	
	July 29, 2012		April 29, 2012		July 31, 2011				Q3 2012 over Q2 2012	Q3 2012 over Q3 2011	
	(In millions, except percentages)										
Korea	\$299	17	%	\$704	26	%	\$362	15	%	(58)%	(17)%
Taiwan	588	33	%	810	29	%	425	18	%	(27)%	38%
Japan	128	7	%	121	4	%	372	15	%	6%	(66)%
China	101	6	%	118	4	%	534	22	%	(14)%	(81)%
Southeast Asia	91	5	%	68	3	%	87	4	%	34%	5%
Asia Pacific	1,207	68	%	1,821	66	%	1,780	74	%	(34)%	(32)%
North America(*)	420	23	%	673	24	%	356	15	%	(38)%	18%
Europe	172	9	%	271	10	%	254	11	%	(37)%	(32)%
Total	\$1,799	100	%	\$2,765	100	%	\$2,390	100	%	(35)%	(25)%

(*)Primarily the United States.

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	Nine Months Ended						Change
	July 29, 2012			July 31, 2011			YTD 2012 over YTD 2011
	(In millions, except percentages)						
Korea	\$1,670	25	%	\$956	11	%	75%
Taiwan	1,765	27	%	1,952	23	%	(10)%
Japan	416	6	%	828	10	%	(50)%
China	302	5	%	1,855	22	%	(84)%
Southeast Asia	209	3	%	365	4	%	(43)%
Asia Pacific	4,362	66	%	5,956	70	%	(27)%
North America(*)	1,559	24	%	1,745	20	%	(11)%
Europe	651	10	%	846	10	%	(23)%
Total	\$6,572	100	%	\$8,547	100	%	(23)%

(*)Primarily the United States.

New orders for the third quarter of fiscal 2012 decreased from the prior quarter, primarily due to lower demand from foundry and logic customers. New orders for the third and second quarters of fiscal 2012 included \$241 million and \$366 million of new orders attributable to Varian, respectively. New orders for the third quarter and first nine months of fiscal 2012 decreased from the comparable periods in the prior year, reflecting sharp decreases in demand for c-Si solar and LCD TV equipment, partially offset by new orders attributable to Varian. New orders for the first nine months of fiscal 2012 included \$874 million of new orders attributable to Varian.

Orders from customers in Asia Pacific continue to comprise the majority of new orders. For the third quarter of fiscal 2012, orders to customers in Korea, the majority of which were for semiconductor equipment, had the largest decrease compared to the prior quarter. Orders to customers in China had the largest decrease compared to the third quarter of fiscal 2011, primarily due to reduced demand for display and solar equipment. Orders to customers in Korea for the first nine months of fiscal 2012 increased compared to the same period in fiscal 2011, while orders to customers in all other regions decreased.

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

	Three Months Ended						Change	Change
	July 29, 2012		April 29, 2012		July 31, 2011		Q3 2012 over Q2 2012	Q3 2012 over Q3 2011
	(In millions, except percentages)							
Silicon Systems Group	\$1,166	65%	\$1,969	71%	\$1,239	52%	(41)%	(6)%
Applied Global Services	531	29%	650	24%	613	26%	(18)%	(13)%
Display	67	4%	84	3%	220	9%	(20)%	(70)%
Energy and Environmental Solutions	35	2%	62	2%	318	13%	(44)%	(89)%
Total	\$1,799	100%	\$2,765	100%	\$2,390	100%	(35)%	(25)%

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	Nine Months Ended				Change
	July 29, 2012		July 31, 2011		YTD 2012 over YTD 2011
	(In millions, except percentages)				
Silicon Systems Group	\$4,552	69%	\$4,563	53%	—%
Applied Global Services	1,697	26%	1,769	21%	(4)%
Display	192	3%	617	7%	(69)%
Energy and Environmental Solutions	131	2%	1,598	19%	(92)%
Total	\$6,572	100%	\$8,547	100%	(23)%

New orders for the third quarter of fiscal 2012 compared to the second quarter of fiscal 2012 decreased for all segments, primarily due to decreased demand for semiconductor equipment from foundry and logic customers. New orders for the third quarter and first nine months of fiscal 2012 decreased for all segments compared to the same periods in the prior year, mostly due to the down cycle in the display industry and excess manufacturing capacity in the solar industry, partially offset by the addition of orders attributable to Varian.

Applied's backlog for the most recent three fiscal quarters was as follows: \$1.8 billion at July 29, 2012, \$2.4 billion at April 29, 2012, and \$2.2 billion at January 29, 2012. Net backlog adjustments for the quarter ended July 29, 2012 were negative and totaled \$20 million. Negative backlog adjustments of \$50 million consisted of financial debookings, cancellations and foreign exchange effects primarily related to services and semiconductor equipment customers. Negative adjustments were partially offset by \$30 million of rebookings primarily related to semiconductor equipment customers. 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. In the third quarter of fiscal 2012, approximately 53 percent of the net sales in the Silicon Systems Group, Applied's largest business segment, were from orders received and shipped in the same quarter.

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

	July 29, 2012		April 29, 2012		January 29, 2012		Change Q3 2012 over Q2 2012	Change Q3 2012 over Q1 2012			
	(In millions, except percentages)										
Silicon Systems Group	\$853	47	%	\$1,220	51	%	\$1,044	48	%	(30)%	(18)%
Applied Global Services	641	35	%	703	30	%	649	30	%	(9)%	(1)%
Display	216	12	%	291	12	%	267	12	%	(26)%	(19)%
Energy and Environmental Solutions	111	6	%	158	7	%	202	10	%	(30)%	(45)%
Total	\$1,821	100	%	\$2,372	100	%	\$2,162	100	%	(23)%	(16)%

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Net Sales

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

	Three Months Ended			Change Q3 2012 over Q2 2012	Change Q3 2012 over Q3 2011
	July 29, 2012	April 29, 2012	July 31, 2011		
	(In millions, except percentages)				
Korea	\$392	17 %	\$750	30	