APPLIED MATERIALS INC /DE
Form 10-Q
June 09, 2010

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended May 2, 2010

or

o **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)*

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

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 þ No o

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 þ No o

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

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

Number of shares outstanding of the issuer s common stock as of May 2, 2010: 1,342,979,263

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	May 2, 2010	April 26, 2009	May 2, 2010	April 26, 2009
	(Unaudited) (In thousands, except per share amounts)			
Net sales	$ 2,295,540	$ 1,020,077	$ 4,144,442	$ 2,353,473
Cost of products sold	1,368,648	864,558	2,506,366	1,806,378
Gross margin	926,892	155,519	1,638,076	547,095
Operating expenses:				
Research, development and engineering	305,928	236,335	574,931	465,875
General and administrative	125,779	101,080	250,578	242,321
Marketing and selling	100,420	84,678	197,615	168,793
Restructuring and asset impairments	8,968	26,709	112,812	159,481
Total operating expenses	541,095	448,802	1,135,936	1,036,470
Income (loss) from operations	385,797	(293,283)	502,140	(489,375)
Pre-tax loss of equity method investment		19,175		34,983
Impairment of equity method investment and strategic investments	3,671	77,081	4,861	77,081
Interest expense	5,206	5,058	10,266	11,052
Interest income	10,132	11,789	18,773	27,024
Income (loss) before income taxes	387,052	(382,808)	505,786	(585,467)
Provision (benefit) for income taxes	123,048	(127,418)	159,031	(197,143)
Net income (loss)	$ 264,004	$ (255,390)	$ 346,755	$ (388,324)
Earnings (loss) per share:				
Basic	$ 0.20	$ (0.19)	$ 0.26	$ (0.29)
Diluted	$ 0.20	$ (0.19)	$ 0.26	$ (0.29)
Weighted average number of shares:				
Basic	1,344,617	1,331,729	1,343,229	1,330,476
Diluted	1,352,436	1,331,729	1,350,802	1,330,476

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS*

	May 2, 2010	October 25, 2009
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,596,429	$ 1,576,381
Short-term investments	738,433	638,349
Accounts receivable, net	1,437,746	1,041,495
Inventories	1,690,445	1,627,457
Deferred income taxes, net	432,735	356,336
Income taxes receivable		184,760
Other current assets	277,506	264,169
Total current assets	6,173,294	5,688,947
Long-term investments	1,230,214	1,052,165
Property, plant and equipment, net	1,083,525	1,090,433
Goodwill	1,336,426	1,170,932
Purchased technology and other intangible assets, net	346,228	306,416
Deferred income taxes and other assets	280,062	265,350
Total assets	$ 10,449,749	$ 9,574,243
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,803	$ 1,240
Accounts payable and accrued expenses	1,440,225	1,061,502
Customer deposits and deferred revenue	980,658	864,280
Income taxes payable	153,134	12,435
Total current liabilities	2,575,820	1,939,457
Long-term debt	204,847	200,654
Employee benefits and other liabilities	348,001	339,524
Total liabilities	3,128,668	2,479,635
Stockholders equity:		
Common stock: $.01 par value per share; 2,500,000 shares authorized; 1,342,979 and 1,340,917 shares outstanding at May 2, 2010 and October 25, 2009, respectively	13,430	13,409
Additional paid-in capital	5,348,780	5,195,437
Retained earnings	11,106,136	10,934,004
	(9,146,562)	(9,046,562)

Treasury stock: 515,885 and 508,254 shares at May 2, 2010 and October 25, 2009, respectively, net		
Accumulated other comprehensive loss	(703)	(1,680)
Total stockholders equity	7,321,081	7,094,608
Total liabilities and stockholders equity	$ 10,449,749	$ 9,574,243

* Amounts as of May 2, 2010 are unaudited. Amounts as of October 25, 2009 are derived from the October 25, 2009 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
			(Unaudited) (In thousands)				
Six Months Ended May 2, 2010							
Balance at October 25, 2009	1,340,917	$ 13,409	$ 5,195,437	$ 10,934,004	$ (9,046,562)	$ (1,680)	$ 7,094,608
Components of comprehensive income, net of tax:							
Net income				346,755			346,755
Change in unrealized net gain on investments						2,013	2,013
Change in unrealized net gain on derivative instruments						515	515
Change in defined and postretirement benefit plans liability						74	74
Translation adjustments						(1,625)	(1,625)
Comprehensive income							347,732
Dividends				(174,623)			(174,623)
Equity-based compensation			62,330				62,330
Issuance under stock plans, net of a tax detriment of $1,897 and other	9,693	97	91,013				91,110
Treasury stock repurchases	(7,631)	(76)			(100,000)		(100,076)
Balance at May 2, 2010	1,342,979	$ 13,430	$ 5,348,780	$ 11,106,136	$ (9,146,562)	$ (703)	$ 7,321,081

See accompanying Notes to Consolidated Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	May 2, 2010	April 26, 2009
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 346,755	$ (388,324)
Adjustments required to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	163,178	146,108
Loss on fixed asset retirements	11,658	7,002
Provision for bad debts	6,000	62,539
Restructuring and asset impairments	112,812	159,481
Deferred income taxes	(74,546)	35,927
Net recognized loss on investments	9,247	10,915
Pretax loss of equity method investment		34,983
Impairment of investments	4,861	77,081
Equity-based compensation	62,330	72,780
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	(364,631)	714,096
Inventories	(909)	85,993
Income taxes receivable	184,760	(174,796)
Other current assets	(673)	13,411
Other assets	(9,521)	(1,144)
Accounts payable and accrued expenses	211,009	(649,976)
Customer deposits and deferred revenue	110,519	(262,760)
Income taxes payable	138,109	(71,943)
Employee benefits and other liabilities	(12,125)	27,710
Cash provided by (used in) operating activities	898,833	(100,917)
Cash flows from investing activities:		
Capital expenditures	(97,874)	(128,099)
Cash paid for acquisition, net of cash acquired	(322,599)	
Proceeds from sales and maturities of investments	539,515	925,485
Purchases of investments	(828,582)	(486,527)
Cash provided by (used in) investing activities	(709,540)	310,859
Cash flows from financing activities:		
Debt repayments, net	(5,320)	(323)
Proceeds from common stock issuances	97,217	27,633
Common stock repurchases	(100,076)	(22,906)

Payment of dividends to stockholders	(161,069)	(159,736)
Cash used in financing activities	(169,248)	(155,332)
Effect of exchange rate changes on cash and cash equivalents	3	742
Increase in cash and cash equivalents	20,048	55,352
Cash and cash equivalents beginning of period	1,576,381	1,411,624
Cash and cash equivalents end of period	$ 1,596,429	$ 1,466,976
Supplemental cash flow information:		
Cash payments for income taxes	$ 98,385	$ 133,250
Cash refunds for income taxes	$ 196,149	$ 50,122
Cash payments for interest	$ 7,195	$ 7,211

See accompanying Notes to Consolidated Condensed Financial Statements.

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 25, 2009 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 25, 2009 (2009 Form 10-K). Applied s results of operations for the three and six months ended May 2, 2010 are not necessarily indicative of future operating results.

Applied s fiscal year ends on the last Sunday in October of each year. Fiscal 2010 contains 53 weeks, while fiscal 2009 contained 52 weeks, and the first six months of fiscal 2010 contained 27 weeks, while the first six months of fiscal 2009 contained 26 weeks.

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, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of stock-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; (4*)* for arrangements initiated prior to fiscal 2010 containing multiple elements, the revenue relating to the undelivered elements is deferred at their estimated relative fair values until delivery of the deferred elements; and (5) for arrangements initiated or materially modified during fiscal 2010 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. The completed contract method is used for SunFab™ thin film lines. Certain SunFab thin film contracts have provisions for additional amounts to become due to Applied if the line achieves certain output criteria subsequent to factory

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

acceptance. Any additional amounts earned under these contracts are recognized upon achievement. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

In the first quarter of fiscal 2010, Applied elected to early adopt amended accounting standards issued by the Financial Accounting Standards Board (FASB) for multiple deliverable revenue arrangements on a prospective basis for applicable transactions originating or materially modified after October 25, 2009. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. The FASB also amended the accounting standards for revenue recognition to exclude software that is contained in a tangible product from the scope of software revenue guidance if the software is essential to the tangible product s functionality. Implementation of this new authoritative guidance had an insignificant impact on reported net sales as compared to net sales under previous guidance, as the new guidance did not change the units of accounting within sales arrangements and the elimination of the residual method for the allocation of arrangement consideration had an inconsequential impact on the amount and timing of reported net sales. Accordingly, Applied does not believe that the effect of adopting these standards will have a material impact on future financial periods.

For fiscal 2010 and future periods, 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, as amended.

Business Combinations

Effective in the first quarter of fiscal 2010, Applied adopted revised authoritative guidance on business combinations that covers the measurement of acquirer shares issued as consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition-related transaction costs, and the recognition of changes in the acquirer s income tax valuation allowance. This authoritative guidance also revised the accounting for both increases and decreases in a parent s controlling ownership interest.

Note 2 Earnings (Loss) Per Share

Basic earnings (loss) 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 plans shares) outstanding during the period. Applied s net income (loss) has not been adjusted for any period presented for purposes of computing basic or diluted earnings (loss) per share due to the Company s non-complex capital structure. For purposes of computing diluted earnings per share, weighted average potential common shares do not include stock options with an exercise price greater than the average fair market value of Applied common stock for the period as the effect would be anti-dilutive. Potential common shares have not been included in the calculation of diluted net loss per share for the three and six months ended April 26,

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

2009 as the effect would be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per share for the three and six months ended April 26, 2009 are the same.

	Three Months Ended		Six Months Ended	
	May 2, 2010	April 26, 2009	May 2, 2010	April 26, 2009
	(In thousands, except per share amounts)			
Numerator:				
Net income (loss)	$ 264,004	$ (255,390)	$ 346,755	$ (388,324)
Denominator:				
Weighted average common shares outstanding	1,344,617	1,331,729	1,343,229	1,330,476
Effect of dilutive stock options, restricted stock units and employee stock purchase plans shares	7,819		7,573	
Denominator for diluted income (loss) per share	1,352,436	1,331,729	1,350,802	1,330,476
Basic net income (loss) per share	$ 0.20	$ (0.19)	$ 0.26	$ (0.29)
Diluted net income (loss) per share	$ 0.20	$ (0.19)	$ 0.26	$ (0.29)
Potentially dilutive securities	39,936,202	92,425,216	42,855,694	92,425,216

Note 3 Cash, Cash Equivalents and Investments

Summary of Cash, Cash Equivalents and Investments

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

May 2, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
Cash	$ 692,580	$	$	$ 692,580
Cash equivalents:				
Money market funds	875,234			875,234
U.S. Treasury and agency securities	24,999		1	24,998
Obligations of states and political subdivisions	3,641		24	3,617
Total Cash equivalents	903,874		25	903,849

Total Cash and Cash equivalents	$	1,596,454	$		$	25	$	1,596,429
Short-term and Long-term investments:								
U.S. Treasury and agency securities	$	865,391	$	6,993	$	253	$	872,131
Obligations of states and political subdivisions		457,930		6,120		72		463,978
U.S. commercial paper, corporate bonds and medium-term notes		336,862		5,656		34		342,484
Other debt securities*		195,967		1,612		240		197,339
Total fixed income securities		1,856,150		20,381		599		1,875,932
Publicly traded equity securities		9,572		14,731				24,303
Equity investments in privately-held companies		68,412						68,412
Total Short-term and Long-term investments	$	1,934,134	$	35,112	$	599	$	1,968,647
Total Cash, Cash equivalents and Investments	$	3,530,588	$	35,112	$	624	$	3,565,076

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

October 25, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
Cash	$ 341,127	$	$	$ 341,127
Cash equivalents:				
Money market funds	1,235,254			1,235,254
Total Cash equivalents	1,235,254			1,235,254
Total Cash and Cash equivalents	$ 1,576,381	$	$	$ 1,576,381
Short-term and Long-term investments:				
U.S. Treasury and agency securities	$ 653,627	$ 8,013	$ 170	$ 661,470
Obligations of states and political subdivisions	419,640	7,597		427,237
U.S. commercial paper, corporate bonds and medium-term notes	382,550	5,676	281	387,945
Other debt securities*	103,193	1,430	391	104,232
Total fixed income securities	1,559,010	22,716	842	1,580,884
Publicly traded equity securities	9,572	9,439		19,011
Equity investments in privately-held companies	90,619			90,619
Total Short-term and Long-term investments	$ 1,659,201	$ 32,155	$ 842	$ 1,690,514
Total Cash, Cash equivalents and Investments	$ 3,235,582	$ 32,155	$ 842	$ 3,266,895

* Other debt securities consist primarily of investment grade asset-backed and mortgage-backed securities.

Maturities of Investments

The following table summarizes the contractual maturities of Applied s investments at May 2, 2010:

	Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 711,237	$ 714,130
Due after one through five years	943,093	958,233

Due after five years	5,853	6,315
No single maturity date**	273,951	289,969
	$ 1,934,134	$ 1,968,647

** 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 six months ended May 2, 2010 and April 26, 2009 were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2010	April 26, 2009	May 2, 2010	April 26, 2009
	(In thousands)			
Gross realized gains	$ 1,545	$ 1,551	$ 1,887	$ 4,805
Gross realized losses	$ 116	$ 3,164	$ 669	$ 8,977

At May 2, 2010, Applied had a gross unrealized loss of $0.6 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 is 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 has determined that the gross unrealized losses on its marketable securities at May 2, 2010, are temporary in nature and therefore it did not recognize any impairment of its marketable securities for the three and six months ended May 2, 2010. At May 2, 2010, Applied determined that certain of its equity investments in privately-held companies were other-than-temporarily impaired and, accordingly, recognized impairment charges in the amounts of $4 million and $5 million for the three and six months ended May 2, 2010, respectively. Impairment charges associated with financial assets for both the three and six months ended April 26, 2009 totaled $77 million, consisting of the following: equity method investment, $45 million; publicly-traded equity securities, $20 million; and equity investments in privately-held companies, $12 million.

The following table provides the fair market value of Applied s investments with unrealized losses that are not deemed to be other-than-temporarily impaired as of May 2, 2010.

	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
	$ 371,712	$ 254	$	$	$ 371,712	$ 254

U.S. Treasury and agency securities																	
Obligations of states and political subdivisions		32,035			96								32,035			96	
U.S. commercial paper, corporate bonds and medium-term notes		32,727			34								32,727			34	
Other debt securities		59,184			165			1,766			75		60,950			240	
Total	$	495,658		$	549		$	1,766		$	75	$	497,424		$	624	

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.

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 indicates 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 an event or circumstance indicates 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 Observable 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 value. 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 May 2, 2010, 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.

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 May 2, 2010 and October 25, 2009:

	May 2, 2010				October 25, 2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In thousands)				(In thousands)			
Assets:								
Money market funds	$ 875,234	$	$	$ 875,234	$ 1,235,254	$	$	$ 1,235,254
U.S. Treasury and agency securities	178,727	718,402		897,129	145,166	516,304		661,470
Obligations of states and political subdivisions		467,595		467,595		427,237		427,237
U.S. commercial paper, corporate bonds and medium-term notes		342,484		342,484		387,945		387,945
Other debt securities		197,339		197,339		104,232		104,232
Publicly traded equity securities	24,303			24,303	19,011			19,011
Foreign exchange derivative assets		3,234		3,234		2,173		2,173
Total	$ 1,078,264	$ 1,729,054	$	$ 2,807,318	$ 1,399,431	$ 1,437,891	$	$ 2,837,322
Liabilities:								
Foreign exchange derivative liabilities	$	$ (1,161)	$	$ (1,161)	$	$ (1,678)	$	$ (1,678)

Total	$	$	(1,161)	$	$	(1,161)	$	$	(1,678)	$	$	(1,678)

There were no significant transfers in and out of Level 1 and Level 2 fair value measurements during the three and six months ended May 2, 2010. During the three and six months ended April 26 2009, Level 3 assets consisted of asset-backed and mortgage-backed securities, the values of which were based on non-binding, broker-provided price quotes and may not have been corroborated by observable market data. The following table presents the activity in Level 3 instruments during the periods indicated below:

	Three Months Ended				**Six Months Ended**			
	May 2, 2010 Level 3 (In thousands)		**April 26, 2009 Level 3 (In thousands)**		**May 2, 2010 Level 3 (In thousands)**		**April 26, 2009 Level 3 (In thousands)**	
Balance, beginning of period	$		$	3,007	$		$	13,100
Total realized and unrealized losses:								
Included in earnings				(432)				(2,766)
Included in other comprehensive loss				390				(1,125)
Purchases, sales, and maturities				(852)				(6,995)
Transfers out of Level 3, net				172				71
Balance, end of period	$		$	2,285	$		$	2,285

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

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 $68 million at May 2, 2010, of which $52 million of investments were accounted for under the cost method of accounting and $16 million of investments had been measured at fair value on a non-recurring basis due to an other-than-temporary decline in value. At April 26, 2009, equity investments in privately-held companies totaled $88 million, of which $47 million of investments were accounted for under the cost method of accounting and $41 million of investments had been measured at fair value on a non-recurring basis due to an other-than-temporary decline in value.

The following tables present the balances of equity securities at May 2, 2010 and April 26, 2009 that had been measured at fair value on a non-recurring basis, using the process described above, and the impairment charges recorded during the three and six months then ended:

	Level 1	Level 2	Level 3	Total Impairment For the Three Months Ended May 2, 2010	Total Impairment For the Six Months Ended May 2, 2010
			(In thousands)		
Equity investments in privately-held companies measured at fair value on a non-recurring basis during fiscal 2010	$	$	$ 16,499	$ 3,671	$ 4,861

	Level 1	Level 2	Level 3	Total Impairment For the Three and Six Months Ended April 26, 2009
			(In thousands)	

Equity investments in privately-held companies measured at fair value on a non-recurring basis during fiscal 2009	$	$	$ 41,334	$ 12,060

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 May 2, 2010, the carrying amount of long-term debt was $207 million and the estimated fair value was $233 million. At October 25, 2009, the carrying amount of long-term debt was $202 million and the estimated fair value was $216 million. The estimated fair value of long-term debt is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

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

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

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 accounts payable and accrued expenses.

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as Japanese yen, euro, Israeli shekel and Swiss franc. 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.

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. 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 May 2, 2010 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 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 six months ended May 2, 2010. 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 $26 million and $25 million for the three and six months ended April 26, 2009, respectively.

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.

Fair values of derivative instruments were as follows:

	May 2, 2010			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)			
Derivatives Designated as Hedging Instruments				

Foreign exchange contracts	Other current assets	$	2,457	Accounts payable and accrued expenses	$	1,047
Derivatives Not Designated as Hedging Instruments						
Foreign exchange contracts	Other current assets	$	777	Accounts payable and accrued expenses	$	114
Total derivatives		$	3,234		$	1,161

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

	October 25, 2009					
	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
	(In thousands)					
Derivatives Designated as Hedging Instruments						
Foreign exchange contracts	Other current assets	$	1,811	Accounts payable and accrued expenses	$	1,225
Derivatives Not Designated as Hedging Instruments						
Foreign exchange contracts	Other current assets	$	362	Accounts payable and accrued expenses	$	453
Total derivatives		$	2,173		$	1,678

The effect of derivative instruments on the Consolidated Condensed Statement of Operations for the three and six months ended May 2, 2010 was as follows:

	Three Months Ended May 2, 2010				
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	
	Gain or (Loss) Recognized in AOCI	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Reclassified from AOCI into Income	Location of Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in Income
	(In thousands)				
Derivatives in Cash Flow Hedging Relationships					

Foreign exchange contracts	$ 1,228	Cost of products sold	$ 590	Cost of products sold	$ 5
Foreign exchange contracts		General and administrative	(2,124)	General and administrative	(378)
Foreign exchange contracts		Research, development and engineering	(81)	Research, development and engineering	
Total	$ 1,228		$ (1,615)		$ (373)

	Six Months Ended May 2, 2010				
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	
	Gain or (Loss) Recognized in AOCI	**Location of Gain or (Loss) Reclassified from AOCI into Income**	**Gain or (Loss) Reclassified from AOCI into Income**	**Location of Gain or (Loss) Recognized in Income**	**Gain or (Loss) Recognized in Income**
			(In thousands)		
Derivatives in Cash Flow Hedging Relationships					
Foreign exchange contracts	$ (1,607)	Cost of products sold	$ (1,167)	Cost of products sold	$ (299)
Foreign exchange contracts		General and administrative	(1,087)	General and administrative	(944)
Foreign exchange contracts		Research, development and engineering	(163)	Research, development and engineering	
Total	$ (1,607)		$ (2,417)		$ (1,243)

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

	Location of Gain or (Loss) Recognized in Income	Three Months Ended May 2, 2010 Amount of Gain or (Loss) Recognized in Income	Six Months Ended May 2, 2010 Amount of Gain or (Loss) Recognized in Income
		(In thousands)	
Derivatives Not Designated as Hedging Instruments			
Foreign exchange contracts	General and administrative	$ 6,780	$ (3,680)
Total		$ 6,780	$ (3,680)

The effect of derivative instruments on the Consolidated Condensed Statement of Operations for the three and six months ended April 26, 2009 was as follows:

	Three Months Ended April 26, 2009				
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	
	Gain or (Loss) Recognized in AOCI	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Reclassified from AOCI into Income	Location of Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in Income
			(In thousands)		
Derivatives in Cash Flow Hedging Relationships					
Foreign exchange contracts	$ 3,403	Cost of products sold	$ 2,609	Cost of products sold	$ (638)
Foreign exchange contracts		General and administrative	(5,989)	General and administrative	25,743

Foreign exchange contracts		Research, development and engineering		(82)	Research, development and engineering		
Total	$	3,403	$	(3,462)		$	25,105

	Six Months Ended April 26, 2009				
	Effective Portion			Ineffective Portion and Amount Excluded from Effectiveness Testing	
	Gain or (Loss) Recognized in AOCI	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Reclassified from AOCI into Income	Location of Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in Income
	(In thousands)				
Derivatives in Cash Flow Hedging Relationships					
Foreign exchange contracts	$ (8,120)	Cost of products sold	$ (8,901)	Cost of products sold	$ (2,858)
Foreign exchange contracts		General and administrative	(12,204)	General and administrative	24,242
Foreign exchange contracts		Research, development and engineering	(163)	Research, development and engineering	
Total	$ (8,120)		$ (21,268)		$ 21,384

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

	Location of Gain or (Loss) Recognized in Income	Three Months Ended April 26, 2009 Amount of Gain or (Loss) Recognized in Income (In thousands)	Six Months Ended April 26, 2009 Amount of Gain or (Loss) Recognized in Income
Derivatives Not Designated as Hedging Instruments			
Foreign exchange contracts	General and administrative	$ 19,764	$ (9,892)
Total		$ 19,764	$ (9,892)

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 liability position was immaterial as of May 2, 2010.

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 six months ended May 2, 2010 and April 26, 2009 were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2010	April 26, 2009	May 2, 2010	April 26, 2009
	(In thousands)			
Discounted letters of credit	$ 26,049	$ 39,419	$ 53,262	$ 52,700

Factored accounts receivable	23,594	19,709	48,691	21,884
Discounted promissory notes	792	897	1,097	2,316
Total	$ 50,435	$ 60,025	$ 103,050	$ 76,900

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 all periods presented.

Accounts receivable are presented net of allowance for doubtful accounts of $73 million at May 2, 2010 and $67 million at October 25, 2009. 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 at May 2, 2010, Applied will continue to closely monitor customer liquidity and other economic conditions, which may result in changes to Applied s estimates regarding collectability.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Note 7 Balance Sheet Detail

Inventories

	May 2, 2010	October 25, 2009
	(In thousands)	
Customer service spares	$ 291,459	$ 263,688
Raw materials	301,633	351,824
Work-in-process	670,628	667,484
Finished goods	426,725	344,461
	$ 1,690,445	$ 1,627,457

Inventories are stated at the lower of cost or market, with cost determined on a FIFO basis. Included in finished goods inventory is $133 million at May 2, 2010, and $133 million at October 25, 2009, 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.

Applied adjusts inventory carrying value for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Applied fully reserves for inventories and noncancelable purchase orders for inventory deemed obsolete. Applied performs periodic reviews of inventory items to identify excess inventories on hand by comparing on-hand balances to anticipated usage using recent historical activity as well as anticipated or forecasted demand. If estimates of customer demand diminish further or market conditions become less favorable than those projected by Applied, additional inventory adjustments may be required.

	May 2, 2010	October 25, 2009
	(In thousands)	
Property, Plant and Equipment, Net		
Land and improvements	$ 229,322	$ 228,057
Buildings and improvements	1,237,881	1,164,384
Demonstration and manufacturing equipment	686,957	654,779
Furniture, fixtures and other equipment	723,268	713,505
Construction in progress	59,843	146,232
Gross property, plant and equipment	2,937,271	2,906,957
Accumulated depreciation	(1,853,746)	(1,816,524)

	$ 1,083,525	$ 1,090,433
Accounts Payable and Accrued Expenses		
Accounts payable	$ 546,359	$ 477,148
Compensation and employee benefits	310,052	134,949
Warranty	140,369	117,537
Dividends payable	94,009	80,455
Other accrued taxes	65,191	36,954
Restructuring reserve	93,590	31,581
Other	190,655	182,878
	$ 1,440,225	$ 1,061,502
Customer Deposits and Deferred Revenue		
Customer deposits	$ 578,020	$ 564,412
Deferred revenue	402,638	299,868
	$ 980,658	$ 864,280

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Note 8 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 a reporting unit 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. For goodwill, Applied performs a two-step impairment test. In the first step, Applied compares 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 15, 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. 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 equal to the difference.

Applied conducted impairment tests in the fourth quarter of fiscal 2009, and the results of the first step of the impairment test indicated that Applied s goodwill and purchased intangible assets with indefinite useful lives for each of its reporting units were not impaired. During the second quarter of fiscal 2010, Applied tested goodwill of the Energy and Environmental Solutions reporting unit for potential impairment and the result of the first step of the impairment test indicated that there was no impairment. Applied tested goodwill of the Energy and Environmental Solutions reporting unit for impairment in light of second quarter developments that included the insolvency of a thin film solar customer, inability of other thin film solar customers to secure financing, weaker outlooks for certain customers that in turn reduced their spending plans resulting in the delay or cancellation of thin film production lines, and other adverse operating conditions affecting the solar industry.

Applied utilized the discounted cash flow method of the income approach to estimate the fair value of the Energy and Environmental Solutions reporting unit. Although considered, the market approach was not used as comparable enterprises, market-based growth rates, and gross margins were not considered to be representative of the Energy and Environmental Solutions reporting unit. While the results of the first step of the impairment test indicated that goodwill and intangible assets within the Energy and Environmental Solutions reporting unit were not

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

impaired, the estimated fair value in excess of carrying value declined significantly from the fourth quarter of fiscal 2009 to the end of the second quarter of fiscal 2010 to approximately $200 million (or 19 percent over the carrying value of the reporting unit). 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. Cash flows beyond the discrete forecasts were estimated using a terminal value 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 Applied 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. In the event of future adverse business conditions in the market in which the Energy and Environmental Solutions reporting unit operates, Applied will reassess and update its forecasts and estimates used in a future impairment analysis. If the results of this analysis are lower than current estimates, a material impairment charge may result at that time.

Details of indefinite-lived intangible assets were as follows:

	May 2, 2010			October 25, 2009		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In thousands)					
Carrying amount	$ 1,336,426	$ 17,400	$ 1,353,826	$ 1,170,932	$ 17,860	$ 1,188,792

From October 25, 2009 to May 2, 2010, goodwill increased by $158 million due to the acquisition of Semitool, Inc. (Semitool), and by $7 million due to an asset purchase from Advent Solar, Inc. (Advent Solar), both during the first quarter of fiscal 2010 (see Note 16). Other intangible assets that are not subject to amortization consist primarily of a trade name. As of May 2, 2010, indefinite-lived intangible assets by reportable segment were: Energy and Environmental Solutions, $661 million; Silicon, $382 million; Applied Global Services, $195 million; and Display, $116 million.

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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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Details of amortized intangible assets were as follows:

	May 2, 2010			October 25, 2009		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	$ 612,980	$ 350,929	$ 963,909	$ 554,920	$ 329,629	$ 884,549
Accumulated amortization	(412,593)	(222,488)	(635,081)	(400,093)	(195,900)	(595,993)
	$ 200,387	$ 128,441	$ 328,828	$ 154,827	$ 133,729	$ 288,556

From October 25, 2009 to May 2, 2010, the change in gross carrying amount of the amortized intangible assets was approximately $79 million, primarily due to the acquisition of Semitool during the first quarter of fiscal 2010. Aggregate amortization expense was $28 million and $23 million for the three months ended May 2, 2010 and April 26, 2009, respectively, and $53 million and $44 million for the six months ended May 2, 2010 and April 26, 2009, respectively. As of May 2, 2010, future estimated amortization expense is expected to be $33 million for the remainder of fiscal 2010, $61 million for fiscal 2011, $57 million for fiscal 2012, $53 million for fiscal 2013, $49 million for fiscal 2014, and $76 million thereafter. As of May 2, 2010, amortized intangible assets by reportable segment were: Energy and Environmental Solutions, $184 million; Silicon, $87 million; Applied Global Services, $33 million; and Display, $25 million.

Note 9 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three and six months ended May 2, 2010 and April 26, 2009 were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2010	April 26, 2009	May 2, 2010	April 26, 2009
	(In thousands)			
Beginning balance	$ 137,430	$ 143,723	$ 117,537	$ 142,846
Provisions for warranty	31,471	22,174	65,946	45,720
Consumption of reserves	(28,532)	(34,026)	(43,114)	(56,695)
Ending balance	$ 140,369	$ 131,871	$ 140,369	$ 131,871

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.

Guarantees

During the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by either Applied or its subsidiaries. As of May 2, 2010, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was $88 million. Applied has not recorded any liability in connection with these guarantee arrangements beyond that required to 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 arrangements.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Applied also has agreements with various global banks to facilitate subsidiary banking operations world-wide, including overdraft arrangements, bank guarantees and letters of credit. As of May 2, 2010, Applied Materials, Inc. has provided parent guarantees to banks for approximately $173 million to cover these arrangements.

Legal matters

Semitool Shareholder Litigation

On November 17, 2009, Applied announced that it was making a tender offer to acquire all of the outstanding shares of Semitool in accordance with an Agreement and Plan of Merger entered into with Semitool. Following this announcement, three lawsuits were filed by Semitool shareholders in the District Court of the Eleventh Judicial District Court for the State of Montana, County of Flathead, against Semitool, Semitool s directors, Applied and Applied s acquisition subsidiary. The actions seek certification of a class of all holders of Semitool common stock, except the defendants and their affiliates. The complaints allege that Semitool s directors breached their fiduciary duties by, among other things, failing to maximize shareholder value and failing to disclose material information, and that Applied aided and abetted such alleged breaches. The actions seek injunctive relief, damages and attorneys fees.

On December 14, 2009, all parties in these cases reached an agreement in principle to settle the matters and the plaintiffs withdrew their motion to enjoin consummation of the transaction. Without admitting any wrongdoing or fault, Semitool disclosed certain additional information in its Schedule 14D-9 filed with the Securities and Exchange Commission on December 14, 2009. Following the tender of shares representing over 95 percent of the outstanding shares of Semitool common stock, the merger of Semitool into Applied s acquisition subsidiary was completed on December 21, 2009. Pursuant to a memorandum of understanding between the parties, plaintiffs are conducting discovery to confirm the fairness and reasonableness of the settlement, and defendants will not object to an application by plaintiffs counsel for an award of attorneys fees and expenses in an amount up to $200,000. A class of Semitool s public shareholders will be certified solely for purposes of settlement, which, if approved by the Court, will result in a complete and final discharge of all claims on behalf of the class.

Jusung

Applied has been engaged in several lawsuits and patent and administrative proceedings in Taiwan and South Korea since 2003, and more recently in China, with Jusung Engineering Co., Ltd. (Jusung Engineering) and/or Jusung Pacific Co., Ltd. (Jusung Pacific, referred to together with Jusung Engineering as Jusung) involving technology used in manufacturing 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, and this case remains pending. Jusung Pacific unsuccessfully sought invalidation of Applied s CVD patent in the Taiwanese Intellectual Property Office (TIPO). Jusung Pacific s initial appeal of the TIPO s decision was denied, and it has filed a further appeal to the Taipei High Supreme Administrative Court. In 2009, Jusung filed a second action with the TIPO seeking invalidation of Applied s CVD patent.

In 2006, Applied filed an action in the TIPO challenging the validity of a patent owned by Jusung Engineering related to severability of the transfer chamber on a CVD tool. Jusung Engineering sued Applied and AKT America in

Hsinchu District Court in Taiwan alleging infringement of the same patent. The TIPO granted Applied s request for invalidation and revoked Jusung Engineering s patent. In March 2009, the Hsinchu District Court dismissed Jusung Engineering s lawsuit, and in April 2009, the Ministry of Economic Affairs overruled Jusung Engineering s administrative appeal of the decision revoking its patent. On January 7, 2010, the Taiwan Intellectual Property Court granted Jusung s appeal of the decision revoking its patent and remanded the matter to the TIPO for reconsideration

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

of validity. In November 2009, Applied filed an action in China with the Patent Reexamination Board of the State Intellectual Property Office seeking to invalidate this patent.

In 2006, Jusung Engineering filed a complaint of private prosecution in the Taipei District Court of Taiwan alleging that Applied s outside counsel received from the Court and used a copy of an expert report that Jusung had filed in the ongoing patent infringement lawsuits that Jusung had intended to remain confidential. The complaint names as defendants Applied s outside counsel in Taiwan, as well as Michael R. Splinter, Applied s Chairman, President and Chief Executive Officer, as the statutory representative of Applied. The Taipei District Court dismissed the private prosecution complaint, and the matter was transferred to the Taipei District Attorney s Office. The Taipei District Attorney s Office has issued four successive rulings not to prosecute, each of which Jusung Engineering has appealed. In each instance, the Taiwan High Court District Attorney has returned the matter to the Taipei District Attorney s Office for further consideration, where it remains pending.

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 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. There is a risk that these matters may lead to other legal actions. Applied is investigating the allegations and surrounding circumstances. Applied currently is unable to determine what impact these matters may have on Applied s business. The nature and magnitude of the impact, if any, on Applied s business will depend on many factors, including the outcome of the proceedings and Applied s customer relationships.

From time to time,