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

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 29, 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)*

(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 ☑ No ☐

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

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ 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 January 29, 2012: 1,291,121,831

APPLIED MATERIALS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JANUARY 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	
	January 29, 2012	January 30, 2011
	(Unaudited) (In millions, except per share amounts)	
Net sales	$ 2,189	$ 2,686
Cost of products sold	1,403	1,550
Gross margin	786	1,136
Operating expenses:		
Research, development and engineering	304	270
Selling, general and administrative	303	221
Restructuring charges and asset impairments (Note 11)	—	(29)
Total operating expenses	607	462
Income from operations	179	674
Interest and other expenses	24	5
Interest and other income, net	4	11
Income before income taxes	159	680
Provision for income taxes	42	174
Net income	$ 117	$ 506
Earnings per share:		
Basic and Diluted	$ 0.09	$ 0.38
Weighted average number of shares:		
Basic	1,299	1,324
Diluted	1,310	1,335

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(Unaudited) (In millions)	
Net income	$ 117	$ 506
Other comprehensive income, net of tax:		
Change in unrealized net gain on investments	1	(1)
Change in unrealized net gain on derivative investments	—	(1)
Other comprehensive income (loss)	1	(2)
Comprehensive income	$ 118	$ 504

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS*

	January 29, 2012	October 30, 2011
	(In millions, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 3 and 4)	$ 1,681	$ 5,960
Short-term investments (Notes 3 and 4)	316	283
Accounts receivable, net (Note 6)	1,576	1,532
Inventories (Note 7)	1,772	1,701
Deferred income taxes, net	572	580
Other current assets	240	299
Total current assets	6,157	10,355
Long-term investments (Notes 3 and 4)	955	931
Property, plant and equipment, net (Note 7)	956	866
Goodwill (Notes 8 and 9)	3,875	1,335
Purchased technology and other intangible assets, net (Notes 8 and 9)	1,519	211
Deferred income taxes and other assets	135	163
Total assets	$ 13,597	$ 13,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2	$ —
Accounts payable and accrued expenses (Note 7)	1,327	1,520
Customer deposits and deferred revenue (Note 7)	1,014	1,116
Income taxes payable	151	158
Total current liabilities	2,494	2,794
Long-term debt (Note 10)	1,947	1,947
Employee benefits and other liabilities (Note 13)	506	320
Total liabilities	4,947	5,061
Stockholders' equity (Note 12):		
Common stock	13	13
Additional paid-in capital	5,651	5,616
Retained earnings	13,043	13,029
Treasury stock	(10,064)	(9,864)
Accumulated other comprehensive income	7	6
Total stockholders' equity	8,650	8,800
Total liabilities and stockholders' equity	$ 13,597	$ 13,861

* Amounts as of January 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.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In millions)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income	Total
	Shares	Amount			Shares	Amount		
Balance at October 30, 2011	1,306	$ 13	$ 5,616	$13,029	573	$ (9,864)	$ 6	$8,800
Net income	—	—	—	117	—	—	—	117
Other comprehensive income	—	—	—	—	—	—	1	1
Dividends	—	—	—	(103)	—	—	—	(103)
Share-based compensation	—	—	53	—	—	—	—	53
Stock options assumed in connection with acquisition	—	—	11	—	—	—	—	11
Issuance under stock plans, net of tax detriment of $14 and other	3	—	(29)	—	—	—	—	(29)
Common stock repurchases	(18)	—	—	—	18	(200)	—	(200)
Balance at January 29, 2012	1,291	$ 13	$ 5,651	$13,043	591	$(10,064)	$ 7	$8,650

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(Unaudited) (In millions)	
Cash flows from operating activities:		
Net income	$ 117	$ 506
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	112	63
Net loss on dispositions and fixed asset retirements	2	1
Provision for bad debts	4	—
Restructuring charges and asset impairments	—	(29)
Deferred income taxes	28	10
Net recognized loss on investments	5	4
Share-based compensation	53	33
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	147	(115)
Inventories	179	(100)
Income taxes receivable	6	1
Other current assets	90	(4)
Accounts payable and accrued expenses	(390)	(159)
Customer deposits and deferred revenue	(154)	208
Income taxes payable	(22)	1
Employee benefits and other liabilities	4	5
Cash provided by operating activities	181	425
Cash flows from investing activities:		
Capital expenditures	(37)	(24)
Cash paid for acquisition, net of cash acquired	(4,179)	—
Proceeds from sale of facility	—	39
Proceeds from sales and maturities of investments	313	443
Purchases of investments	(254)	(537)
Cash used in investing activities	(4,157)	(79)
Cash flows from financing activities:		
Proceeds from common stock issuances	2	13
Common stock repurchases	(200)	(150)
Payment of dividends to stockholders	(104)	(93)
Cash used in financing activities	(302)	(230)
Effect of exchange rate changes on cash and cash equivalents	(1)	—
Increase (decrease) in cash and cash equivalents	(4,279)	116
Cash and cash equivalents — beginning of period	5,960	1,858
Cash and cash equivalents — end of period	$ 1,681	$ 1,974
Supplemental cash flow information:		
Cash payments for income taxes	$ 33	$ 165
Cash refunds from income taxes	$ 3	$ 1
Cash payments for interest	$ 41	$ —

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 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 months ended January 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 contains 52 weeks, and the first quarter of fiscal 2012 and 2011 each contained 13 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. The completed contract method is used for SunFab[tm] thin film lines. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

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.

Recent Accounting Pronouncements

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The authoritative guidance also required presentation of adjustments for items that are reclassified from other comprehensive income in the statement where the components of net income and the components of other compressive income are presented, which was indefinitely deferred by the FASB in December 2011. Applied early adopted this authoritative guidance in the first quarter of fiscal 2012. The implementation of this authoritative guidance did not have an impact on Applied’s financial position or results of operations.

In May 2011, the FASB issued authoritative guidance to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This authoritative guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured on a net basis, and provides guidance on the applicability of premiums and discounts. This authoritative guidance also expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance will be effective for Applied in the first quarter of fiscal 2013. The implementation of this authoritative guidance is not expected to have a material impact on Applied’s financial position or results of operations.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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 plans 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. 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.

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions, except per share amounts)	
Numerator:		
Net income	$ 117	$ 506
Denominator:		
Weighted average common shares outstanding	1,299	1,324
Effect of dilutive stock options, restricted stock units and employee stock purchase plans shares	11	11
Denominator for diluted earnings per share	1,310	1,335
Basic and diluted earnings per share	$ 0.09	$ 0.38
Potentially dilutive securities	18	19

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 summarizes Applied's cash, cash equivalents and investments by security type:

January 29, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$ 855	$ —	$ —	$ 855
Cash equivalents:				
Money market funds	819	—	—	819
Municipal securities	7	—	—	7
Total Cash equivalents	826	—	—	826
Total Cash and Cash equivalents	$1,681	$ —	$ —	$ 1,681
Short-term and long-term investments:				
U.S. Treasury and agency securities	$ 198	$ 1	$ —	$ 199
Non-U.S. government securities*	44	—	—	44
Municipal securities	367	2	—	369
Commercial paper, corporate bonds and medium-term notes	218	3	—	221
Asset-backed and mortgage-backed securities	303	3	1	305
Total fixed income securities	1,130	9	1	1,138
Publicly traded equity securities	40	20	—	60
Equity investments in privately-held companies	73	—	—	73
Total short-term and long-term investments	$1,243	$ 29	$ 1	$ 1,271
Total Cash, Cash equivalents and Investments	$2,924	$ 29	$ 1	$ 2,952

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

* Includes agency and corporate debt securities guaranteed by non-U.S. governments, which consist of several Canadian provinces, Australia, Germany, the United Kingdom, and the Netherlands.

Maturities of Investments

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

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 285	$ 286
Due after one through five years	537	541
Due after five years	5	6
No single maturity date**	416	438
	$1,243	$ 1,271

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

Gains and Losses on Investments

Gross realized gains and losses on sales of investments during the three months ended January 29, 2012 and January 30, 2011 were as follows:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Gross realized gains	$ 2	$ 5
Gross realized losses	$ 1	$ 1

At January 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 has determined that the gross unrealized losses on its marketable securities at January 29, 2012 are temporary in nature and therefore it did not recognize any impairment of its marketable securities for the three months ended January 29, 2012. For the three months ended January 30, 2011, Applied did not recognize any impairment of its marketable securities.

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 January 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	$ 57	$ 1	$ 57	$ 1
Total	$ 57	$ 1	$ 57	$ 1

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 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

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.

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 January 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.

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 January 29, 2012 and October 30, 2011:

	January 29, 2012				October 30, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In millions)				(In millions)			
Assets:								
Money market funds	$ 819	$ —	$ —	$ 819	$5,663	$ —	$ —	$5,663
U.S. Treasury and agency securities	102	97	—	199	109	76	—	185
Non-U.S. government securities	—	44	—	44	—	40	—	40
Municipal securities	—	376	—	376	—	373	—	373
Commercial paper, corporate bonds and medium-term notes	—	221	—	221	—	218	—	218
Asset-backed and mortgage-backed securities	—	305	—	305	—	309	—	309
Publicly traded equity securities	60	—	—	60	27	—	—	27
Total	$ 981	$1,043	$ —	$2,024	$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 in and out of Level 1 and Level 2 fair value measurements during both the three months ended January 29, 2012 and January 30, 2011. Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements during both the three months ended January 29, 2012 and January 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 $73 million at January 29, 2012, of which $51 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. 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. Applied did not recognize any impairment on its equity method investments in privately-held companies for both the three months ended January 29, 2012 and January 30, 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 January 29, 2012, the carrying amount of long-term debt was $1.9 billion and the estimated fair value was $2.2 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 January 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 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 months ended January 29, 2012 and January 30, 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 January 29, 2012 and October 30, 2011 were not material.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The effect of derivative instruments on the Consolidated Condensed Statement of Operations for the three months ended January 29, 2012 and January 30, 2011 was as follows:

		Three Months Ended January 29, 2012			Three Months Ended January 30, 2011		
		Effective Portion		Ineffective Portion Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion Excluded from Effectiveness Testing
	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income
		(In millions)			(In millions)		
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$ —	$ 1	$ —	$ 4	$ 4	$ (2)
Foreign exchange contracts	General and administrative	—	(2)	—	—	2	—
Total		$ —	$ (1)	$ —	$ 4	$ 6	$ (2)

		Amount of Gain or (Loss) Recognized in Income	
	Location of Gain or (Loss) Recognized in Income	Three Months Ended January 29, 2012	Three Months Ended January 30, 2011
		(In millions)	
Derivatives Not Designated as Hedging Instruments			
Foreign exchange contracts	General and administrative	$ 6	$ 2
Total		$ 6	$ 2

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 January 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 months ended January 29, 2012 and January 30, 2011 were as follows:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Discounted letters of credit	$ —	$ 123
Factored accounts receivable and discounted promissory notes	70	36
Total	$ 70	$ 159

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 $77 million at January 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 January 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.

Note 7 Balance Sheet Detail

	January 29, 2012	October 31, 2011
	(In millions)	
Inventories		
Customer service spares	$ 319	$ 328
Raw materials	447	407
Work-in-process	319	336
Finished goods*	687	630
	$ 1,772	$ 1,701

* Included in finished goods inventory is $192 million at January 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. Finished goods inventory includes $195 million and $140 million of evaluation inventory at January 29, 2012 and October 30, 2011, respectively.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

	Useful Life (In years)	January 29, 2012	October 30, 2011
		(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		$ 170	$ 163
Buildings and improvements	3-30	1,188	1,155
Demonstration and manufacturing equipment	3-5	727	686
Furniture, fixtures and other equipment	3-15	730	722
Construction in progress		34	12
Gross property, plant and equipment		2,849	2,738
Accumulated depreciation		(1,893)	(1,872)
		$ 956	$ 866

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.

	January 29, 2012	October 30, 2011
	(In millions)	
Accounts Payable and Accrued Expenses		
Accounts payable	$ 484	$ 484
Compensation and employee benefits	268	455
Warranty	161	168
Dividends payable	103	104
Other accrued taxes	54	81
Interest payable	14	31
Restructuring reserve	9	11
Other	234	186
	$ 1,327	$ 1,520

As of January 29, 2012, other accrued expenses included a $23 million acquisition obligation for untendered Varian shares.

	January 29, 2012	October 30, 2011
	(In millions)	
Customer Deposits and Deferred Revenue		
Customer deposits	$ 198	$ 249
Deferred revenue	816	867
	$ 1,014	$ 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 and light-emitting diodes (LEDs).

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 $2.5 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, $1.7 billion of goodwill was allocated to the Silicon Systems Group segment, and the remainder was allocated to the Applied Global Services segment. Goodwill is not deductible for tax purposes. The estimated fair value assigned to identifiable intangible assets acquired and liabilities assumed was based upon preliminary estimates. Valuations and assumptions pertaining to income taxes are subject to change as additional information is obtained during the measurement period.

The following table summarizes the preliminary 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	2,540
Purchased intangible assets	1,365
Other assets	10
Total assets acquired	5,279
Accounts payable and accrued expenses	(134)
Customer deposits and deferred revenue	(52)
Income taxes payable	(60)
Deferred income taxes	(147)
Other liabilities	(25)
Total liabilities assumed	(418)
Purchase price allocated	$ 4,861

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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

	Useful Life	Purchased Intangible Assets 2012
	(In years)	(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

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 January 29, 2012, net sales of Varian products of approximately $200 million and an operating loss of approximately $130 million were included in the consolidated results of operations. Results of operations included charges of $153 million 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 this amount, deal costs and other acquisition-related costs of $36 million were not allocated to the segments.

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 months ended January 30, 2011 combine the results of Applied for the three months ended January 30, 2011, with the results of Varian for the three months ended December 31, 2010.

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions, except per share amounts)	
Net sales	$ 2,189	$ 2,969
Net income	$ 196	$ 449
Basic and diluted earnings per share	$ 0.15	$ 0.34

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 months ended January 30, 2011 include costs of $102 million, 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 (i) potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition or (ii) transaction or integration costs relating to the acquisition.

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. Under the two-step goodwill impairment test, Applied would in the first step 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, 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.

During the first quarter 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.

Details of indefinite-lived intangible assets were as follows:

	January 29, 2012			October 30, 2011		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In millions)					
Silicon Systems Group	$ 2,108	$ 142	$ 2,250	$ 381	$ —	$ 381
Applied Global Services	1,006	—	1,006	193	—	193
Display	116	—	116	116	—	116
Energy and Environmental Solutions	645	—	645	645	—	645
Carrying amount	$ 3,875	$ 142	$ 4,017	$ 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. 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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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Details of finite-lived intangible assets were as follows:

	January 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	106	232	338	105	232	337
Gross carrying amount	$ 1,544	$ 561	$2,105	$ 553	$ 325	$ 878
Accumulated amortization:						
Silicon Systems Group	$ (295)	$ (17)	$ (312)	$ (256)	$ (8)	$(264)
Applied Global Services	(20)	(36)	(56)	(20)	(31)	(51)
Display	(103)	(25)	(128)	(102)	(25)	(127)
Energy and Environmental Solutions	(51)	(181)	(232)	(48)	(177)	(225)
Accumulated amortization	$ (469)	$ (259)	$ (728)	$ (426)	$ (241)	$(667)
Carrying amount	$ 1,075	$ 302	$1,377	$ 127	$ 84	$ 211

During the first quarter of fiscal 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.

Details of amortization expense were as follows:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Silicon Systems Group	$ 48	$ 4
Applied Global Services	5	2
Display	2	2
Energy and Environmental Solutions	6	6
Total	$ 61	14

For the three months ended January 29, 2012 and January 30, 2011, amortization expense was charged to the following categories:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Cost of products sold	$ 52	$ 9
Selling, general and administrative	9	5
Total amortization expense	$ 61	$ 14

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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

	Amortization Expense (In millions)
2012	$ 164
2013	210
2014	199
2015	182
2016	174
Thereafter	448
	$ 1,377

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 four-year revolving credit agreement with a group of banks that is scheduled to expire in May 2015. 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 January 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 these facilities at both January 29, 2012 and October 30, 2011.

Long-term debt outstanding as of January 29, 2012 and October 30, 2011 was as follows:

Due Date	Principal Amount (In millions)	Stated Interest Rate	Effective Interest Rate	Interest Payment Dates
June 15, 2016	$ 400	2.650%	2.666%	June 15, December 15
October 15, 2017	200	7.125%	7.190%	April 15, October 15
June 15, 2021	750	4.300%	4.326%	June 15, December 15
June 15, 2041	600	5.850%	5.879%	June 15, December 15
Other debt	1			
	1,951			
Total unamortized discount	(4)			
Total long-term debt	$ 1,947			

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

Note 11 Restructuring Charges and Asset Impairments

On July 21, 2010, Applied announced a plan to restructure its Energy and Environmental Solutions segment, which was expected to impact between 400 to 500 positions globally. During the third quarter of fiscal 2010, Applied incurred employee severance charges of $45 million associated with this program. During the first quarter of fiscal 2011, as a result of changes in Applied's operating environment and business requirements, Applied revised its workforce reduction under this program to approximately 200 positions and recorded a favorable adjustment of $28 million. As of January 29, 2012, the severance accrual associated with restructuring reserves under this program was $1 million.

On November 11, 2009, Applied announced a restructuring program to reduce its global workforce as of October 25, 2009 by approximately 1,300 to 1,500 positions, or 10 to 12 percent, over a period of 18 months. During the third quarter of fiscal 2010, Applied revised its global workforce reduction under this program to approximately 1,000 positions. In fiscal 2010, Applied recorded restructuring charges of $84 million associated with this program. As of January 29, 2012, the severance accrual associated with restructuring reserves under this program was $3 million.

During the first quarter of fiscal 2011, Applied favorably adjusted the remaining severance accrual associated with a global restructuring program announced in the first quarter of fiscal 2009 by $4 million. As of January 29, 2012, no severance accrual remained under this program.

Changes in severance accruals associated with restructuring reserves for the first quarter of fiscal 2012 were as follows:

	Severance (In millions)
Balance, October 30, 2011	$ 6
Consumption of reserves	(2)
Balance, January 29, 2012	$ 4

In addition, as of January 29, 2012, Applied had $5 million in restructuring reserves associated with facilities. During the first quarter of fiscal 2011, Applied recorded asset impairment charges of $3 million related to a facility held-for-sale.

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:

	January 29, 2012	October 30, 2011
	(In millions)	
Pension liability	$ (25)	$ (25)
Unrealized gain on investments, net	18	17
Cumulative translation adjustments	14	14
	$ 7	$ 6

Stock Repurchase Program

On March 8, 2010, Applied's Board of Directors approved a new stock repurchase program authorizing up to $2.0 billion in repurchases over the next three years ending in March 2013. Under this authorization, Applied renewed its systematic stock repurchase program and may also make supplemental stock repurchases from time to time, depending on market conditions, stock price and other factors.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The following table summarizes Applied's stock repurchases for the first quarters of fiscal 2012 and 2011:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions, except per share amounts)	
Shares of common stock repurchased	18	11
Cost of stock repurchased	$ 200	$ 150
Average price paid per share	$ 10.95	$ 13.74

Dividends

In December 2011, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.08 per share, aggregating $103 million, that will be paid on March 15, 2012 to stockholders of record as of February 23, 2012. 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.

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 (also referred to as "performance shares" under Applied's principal equity compensation plan, the Employee Stock Incentive Plan) 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 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 months ended January 29, 2012 and January 30, 2011, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock units, restricted stock and performance units. Total share-based compensation and related tax benefits were as follows:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Share-based compensation	$ 53	$ 33
Tax benefit recognized	$ 15	$ 10

The effect of share-based compensation on the results of operations for the three months ended January 29, 2012 and January 30, 2011 was as follows:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Cost of products sold	$ 13	$ 11
Research, development, and engineering	13	10
Selling, general and administrative	27	12
Total share-based compensation	$ 53	$ 33

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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 January 29, 2012, Applied had $313 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of stock options, restricted stock units, restricted stock, performance units and shares issued under Applied's ESPP, which will be recognized over a weighted average period of 2.9 years. At January 29, 2012, there were 150 million shares available for grants of stock options, restricted stock units, restricted stock, performance units and other share-based awards, and an additional 54 million shares available for issuance under the ESPP.

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 three months ended January 29, 2012 and January 30, 2011.

Stock option activity for the three months ended January 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	—	$ —
Canceled and forfeited	(8)	$ 16.77
Outstanding at January 29, 2012	27	$ 10.50
Exercisable at January 29, 2012	19	$ 11.61

Restricted Stock Units, Restricted Stock 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 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 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.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Restricted stock units, restricted stock 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.

For performance-based awards granted during fiscal 2011, 2010 and 2008, 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 three months ended January 29, 2012, the Committee granted performance-based awards that require the achievement of positive and relative annual, adjusted operating profit margin goals in a manner similar to the previously granted performance-based awards, with additional shares becoming 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 Technology Sector measured at the end of a two-year period beginning fiscal 2012. 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 as described above. 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 January 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 January 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. As of January 29, 2012, 90 percent of the performance-based awards granted in fiscal 2008 had been earned. The remaining 10 percent of the awards were forfeited as specified performance goals were not fully achieved. No performance-based awards were granted in fiscal 2009.

Restricted stock unit, restricted stock and performance share unit activity for the three months ended January 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	14	$ 10.64	
Vested	(5)	$ 13.08	
Canceled	(1)	$ 13.55	
Non-vested restricted stock units, restricted stock and performance units at January 29, 2012	36	$ 11.79	3.1 Years

At January 29, 2012, 1 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.

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. No shares were issued under the ESPP during the three months ended January 29, 2012 or January 30, 2011. Compensation expense associated with the ESPP is calculated using the fair value of the employees' purchase rights under the Black-Scholes model.

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 months ended January 29, 2012 and January 30, 2011 is presented below:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Service cost	$ 4	$ 4
Interest cost	4	4
Expected return on plan assets	(3)	(3)
Net periodic benefit cost	$ 5	$ 5

Note 14 Income Taxes

Applied's effective income tax rate slightly increased to 26.4% for the first quarter of fiscal 2012 from 25.6% for the first quarter of fiscal 2011. The rate for the first quarter of fiscal 2011 included the impact of legislation restoring the U.S. federal research and development tax credit, which favorably affected the effective tax rate by approximately 2 percentage points. Applied's future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of Applied's pre-tax income, and the tax rate on equity compensation. Management carefully monitors these factors and timely adjusts the interim income tax rate accordingly.

A number of Applied's tax returns remain subject to examination by taxing authorities. These include U.S. federal returns for fiscal 2008 and later years, California returns for fiscal 2006 and later years, tax returns for certain other states for fiscal 2006 and later years, and tax returns in certain jurisdictions outside of the United States for fiscal 2004 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.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 15 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three months ended January 29, 2012 and January 30, 2011 were as follows:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Beginning balance	$ 168	$ 155
Provisions for warranty	30	51
Consumption of reserves	(37)	(33)
Ending balance	$ 161	$ 173

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

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 January 29, 2012, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $51 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 January 29, 2012, Applied Materials, Inc. has provided parent guarantees to banks for approximately $186 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 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 2006, Applied filed an action in the TIPO challenging the validity of a Jusung patent related to separability of the transfer chamber on a CVD tool. Jusung sued Applied and AKT America in the Hsinchu District Court in Taiwan alleging infringement of the same patent. In March 2009, the Hsinchu District Court dismissed Jusung's lawsuit; in October, 2010, the Taiwan Intellectual Property Court dismissed Jusung's appeal; and on December 1, 2011, the Supreme Administrative Court dismissed Jusung's further appeal. Separately, the TIPO granted requests by Applied and another party to invalidate Jusung's patent. Following intermediate court appeals, on December 15, 2011, the Supreme Administrative Court dismissed Jusung's further appeal, irrevocably invalidating Jusung's patent. In November 2009, Applied filed an action in China with the Patent Reexamination Board of the State Intellectual Property Office seeking to invalidate a Chinese counterpart to Jusung's separable chamber patent. On June 18, 2010, the Patent Reexamination Board issued a decision invalidating Jusung's patent in China. Jusung appealed to the Beijing No. 1 Intermediate People's Court and on June 13, 2011, this Court dismissed Jusung's appeal. Jusung appealed this decision to the Beijing High People's Court in July 2011, and Jusung's appeal remains pending.

In 2006, Jusung 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 named 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 issued six separate rulings not to prosecute, each of which Jusung appealed. In the first five instances, the Taiwan High Court District Attorney returned the matter to the Taipei District Attorney's Office for further consideration. Following the sixth ruling not to prosecute, the Taiwan High Court District Attorney dismissed Jusung's appeal. Jusung then petitioned to the Taipei District Court for a trial, and the Court announced on February 7, 2012 that it will dismiss Jusung's petition.

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, which resolves 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.

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 months ended January 29, 2012. At January 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 January 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 President and 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 January 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.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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.

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 includes products for manufacturing LCDs for TVs, personal computers and other video-enabled 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, and systems used in the manufacture of energy-efficient glass.

Net sales and operating income (loss) for each reportable segment for the three months ended January 29, 2012 and January 30, 2011 were as follows:

	Net Sales	Operating Income (loss)
	(In millions)	
2012:		
Silicon Systems Group	$ 1,344	$ 271
Applied Global Services	534	107
Display	104	5
Energy and Environmental Solutions	207	(23)
Total Segment	$ 2,189	$ 360
2011:		
Silicon Systems Group	$ 1,496	$ 543
Applied Global Services	567	85
Display	147	28
Energy and Environmental Solutions	476	144
Total Segment	$ 2,686	$ 800

In the first quarter of fiscal 2011, Applied recorded a favorable adjustment of $28 million related to a restructuring program announced in fiscal 2010 that was reported in the Energy and Environmental Solutions segment.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Reconciliations of total segment operating income to Applied's consolidated operating income for the three months ended January 29, 2012 and January 30, 2011 were as follows:

	Three Months Ended	
	January 29, 2012	January 30, 2011
	(In millions)	
Total segment operating income	$ 360	$ 800
Corporate and unallocated costs	(181)	(127)
Restructuring and asset impairment benefit, net	—	1
Income from operations	$ 179	$ 674

Corporate and unallocated costs included $36 million of deal costs and other acquisition-related costs related to the Varian acquisition.

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

	January 29, 2012
Samsung Electronics Co., Ltd .	27%
Taiwan Semiconductor Manufacturing Company Limited	12%

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, 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," the negative of these terms, 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, solar photovoltaic (PV) and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, flat panel liquid crystal displays (LCDs), solar PV cells and modules, 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 cyclicality, Applied's results can vary significantly year over year, as well as quarter over quarter.

The following table presents certain significant measurements for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011:

	Three Months Ended			Change January 29, 2012 Compared to October 30, 2011	Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012	October 30, 2011	January 30, 2011		
	(In millions, except per share amounts and percentages)				
New orders	$ 2,008	$ 1,595	$ 2,971	$ 413	$ (963)
Net sales	$ 2,189	$ 2,182	$ 2,686	$ 7	$ (497)
Gross margin	$ 786	$ 852	$ 1,136	$ (66)	$ (350)
Gross margin percent	36%	39%	42%	(3) points	(6) points
Operating income	$ 179	$ 361	$ 674	$ (182)	$ (495)
Operating margin percent	8%	17%	25%	(9) points	(17) points
Net income	$ 117	$ 456	$ 506	$ (339)	$ (389)
Diluted earnings per share	$ 0.09	$ 0.34	$ 0.38	$ (0.25)	$ (0.29)
Non-GAAP Results					
Gross margin	$ 890	$ 862	$ 1,145	$ 28	$ (255)
Gross margin percent	41%	40%	43%	1 point	(2) points
Operating income	$ 344	$ 384	$ 659	$ (40)	$ (315)
Operating margin percent	16%	18%	25%	(2) points	(9) points
Net income	$ 240	$ 271	$ 484	$ (31)	$ (244)
Diluted earnings per share	$ 0.18	$ 0.21	$ 0.36	$ (0.03)	$ (0.18)

Reconciliations of non-GAAP measures are presented under “Non-GAAP Results” below.

The first quarter of fiscal 2012, fourth quarter of fiscal 2011, and first quarter of fiscal 2011 each contained 13 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 in the results for the Silicon Systems Group and Applied Global Services segments. For the three months ended January 29, 2012, net sales of Varian products were approximately $200 million.

Financial results for the first quarter of fiscal 2012 as compared to the fourth quarter of fiscal 2011 reflected an increase in new orders, while net sales remained essentially flat. The increase in new orders reflected increased demand for semiconductor equipment, partially offset by softness in spares demand and a weak industry environment for display and solar equipment. Operating income in the first quarter of fiscal 2012 included $153 million of charges attributable to the acquisition of Varian consisting of 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. Of this amount, $96 million was recorded under cost of products sold and $57 million was included in operating expenses. Operating expenses included $36 million of deal costs and other acquisition-related costs, which were not allocated to the segments.

Financial results for the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011 reflected decreased demand across all segments due to uncertain global economic and industry conditions. Total new orders and net sales in the quarter decreased year-over-year, primarily due to decreased demand for crystalline silicon (c-Si) solar PV equipment and LCD TV equipment. Operating income in the first quarter of fiscal 2011 included a favorable adjustment to restructuring reserves of $32 million, offset by asset impairment charges of $3 million.

Results of Operations

New Orders

New orders by geographic region, determined by the location of customers' facilities, for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012		October 30, 2011		January 30, 2011		% Change January 29, 2012 Compared to October 30, 2011	% Change January 29, 2012 Compared to January 30, 2011
	($)	(%)	($)	(%)	($)	(%)		
	(In millions, except percentages)							
Korea	666	33	330	21	225	8	102	196
Taiwan	367	18	283	18	745	25	30	(51)
Japan	167	8	173	11	187	6	(3)	(11)
China	82	4	211	13	654	22	(61)	(87)
Southeast Asia	50	3	98	6	135	4	(49)	(63)
Asia Pacific	1,332	66	1,095	69	1,946	65	22	(32)
North America(*)	467	23	324	20	679	23	44	(31)
Europe	209	11	176	11	346	12	19	(40)
Total	2,008	100	1,595	100	2,971	100	26	(32)

(*)Primarily the United States.

New orders of $2.0 billion for the first quarter of fiscal 2012, including approximately $270 million in new orders for Varian products, were up 26 percent from the fourth quarter of fiscal 2011. The increase was primarily attributable to increased demand for semiconductor equipment from foundry customers, partially offset by decreased demand from solar equipment customers

New orders for the first quarter of fiscal 2012 were down 32 percent from the first quarter of fiscal 2011. The decrease was primarily attributable to sharp decreases in demand for c-Si solar products and LCD TV equipment.

For the first quarter of fiscal 2012, orders to customers in Korea had the largest increase as compared to the fourth quarter of fiscal 2011, the majority of which were for semiconductor equipment. Orders to customers in Korea for the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011 increased, while orders to customers in all other regions decreased.

New orders by reportable segment for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012		October 30, 2011		January 30, 2011		% Change January 29, 2012 Compared to October 30, 2011	% Change January 29, 2012 Compared to January 30, 2011
	($)	(%)	($)	(%)	($)	(%)		
	(In millions, except percentages)							
Silicon Systems Group	1,418	70	925	58	1,610	54	53	(12)
Applied Global Services	517	26	564	35	552	19	(8)	(6)
Display	40	2	20	1	142	5	100	(72)
Energy and Environmental Solutions	33	2	86	6	668	22	(62)	(95)
Total	2,008	100	1,595	100	2,971	100	26	(32)

For the three months ended January 29, 2012, combined new orders for the Silicon Systems Group and Applied Global Services as a percentage of total new orders slightly increased compared to the three months ended October 30, 2011, while combined new orders for Display and Energy and Environmental Solutions as a percentage of total new orders slightly decreased.

New orders for the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011 reflected decreased demand across all segments. For the three months ended January 29, 2012, combined new orders for the Silicon Systems Group and Applied Global Services as a percentage of total new orders increased compared to the three months ended January 30, 2011, while combined new orders for Display and Energy and Environmental Solutions as a percentage of total new orders decreased.

Applied's backlog for the most recent three fiscal quarters was as follows: $2.2 billion at January 29, 2012, $2.4 billion at October 30, 2011, and $3.2 billion at July 31, 2011. Backlog adjustments for the quarter ended January 29, 2012 were negative and totaled $52 million. Negative backlog adjustments of $146 million consisted of financial debookings, cancellations and foreign exchange effects primarily related to solar customers. Negative adjustments were offset in part by $94 million of acquired Varian backlog. 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; (2) contractual service revenue and maintenance fees to be earned within the next 12 months; and (3) orders for SunFab™ thin film solar lines that are anticipated to be recognized as revenue 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 first quarter of fiscal 2012, approximately 67% 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 January 29, 2012, October 30, 2011 and January 30, 2011 was as follows:

	January 29, 2012		October 30, 2011		January 30, 2011		% Change January 29, 2012 Compared to October 30, 2011	% Change January 29, 2012 Compared to January 30, 2011
	($)	(%)	($)	(%)	($)	(%)		
	(In millions, except percentages)							
Silicon Systems Group	1,044	48	913	38	1,202	34	14	(13)
Applied Global Services	649	30	662	28	807	23	(2)	(20)
Display	267	12	337	14	499	14	(21)	(46)
Energy and Environmental Solutions	202	10	480	20	1,028	29	(58)	(80)
Total	2,162	100	2,392	100	3,536	100	(10)	(39)

Net Sales

Net sales by geographic region, determined by the location of customers' facilities, for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012		October 30, 2011		January 30, 2011		% Change January 29, 2012 Compared to October 30, 2011	% Change January 29, 2012 Compared to January 30, 2011
	($)	(%)	($)	(%)	($)	(%)		
Korea	628	29	363	17	169	6	73	272
Taiwan	489	22	353	16	635	24	39	(23)
Japan	217	10	255	12	166	6	(15)	31
China	180	8	408	19	674	25	(56)	(73)
Southeast Asia	79	4	98	4	154	6	(19)	(49)
Asia Pacific	1,593	73	1,477	68	1,798	67	8	(11)
North America(*)	417	19	434	20	610	23	(4)	(32)
Europe	179	8	271	12	278	10	(34)	(36)
Total	2,189	100	2,182	100	2,686	100	—	(19)

(*)Primarily the United States.

Net sales of $2.2 billion for the first quarter of fiscal 2012 as compared to the fourth quarter of fiscal 2011 remained essentially flat, and were down 19 percent from the first quarter of fiscal 2011. Net sales for the first quarter of fiscal 2012 included sales of Varian products of approximately $200 million. The decrease in net sales compared to the first quarter of fiscal 2011 reflected decreased demand for c-Si solar products and LCD TV equipment.

For the first quarter of fiscal 2012, net sales to customers in Korea, the majority of which were for semiconductor equipment, had the largest increase compared to the fourth quarter of fiscal 2011 and the first quarter of fiscal 2011. In the first quarter of fiscal 2012, the majority of net sales in Korea, Taiwan and North America reflected purchases of semiconductor products.

Net sales by reportable segment for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012		October 30, 2011		January 30, 2011		% Change January 29, 2012 Compared to October 30, 2011	% Change January 29, 2012 Compared to January 30, 2011
	($)	(%)	($)	(%)	($)	(%)		
Silicon Systems Group	1,344	61	1,067	49	1,496	56	26	(10)
Applied Global Services	534	24	629	29	567	21	(15)	(6)
Display	104	5	171	8	147	5	(39)	(29)
Energy and Environmental Solutions	207	10	315	14	476	18	(34)	(57)
Total	2,189	100	2,182	100	2,686	100	—	(19)

Net sales for the first quarter of fiscal 2012 as compared to the fourth quarter of fiscal 2011 increased for the Silicon Systems Group and decreased in all other segments. Net sales for the first quarter of fiscal 2012 decreased across all segments compared to the first quarter of fiscal 2011. For the three months ended January 29, 2012, combined net sales for the Silicon Systems Group and Applied Global Services as a percentage of net sales increased compared to the three months ended October 30, 2011 and January 30, 2011, while combined net sales in Display and Energy and Environmental Solutions as a percentage of total net sales decreased.

Gross Margin

Gross margins for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	Three Months Ended			Change January 29, 2012 Compared to October 30, 2011	Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012	October 30, 2011	January 30, 2011		
	(In millions, except percentages)				
Gross margin	$ 786	$ 852	$ 1,136	$ (66)	$ (350)
Gross margin (% of net sales)	36%	39%	42%	(3) points	(6) points
Non-GAAP Results					
Gross margin	$ 890	$ 862	$ 1,145	$ 28	$ (255)
Gross margin (% of net sales)	41%	40%	43%	1 point	(2) points

The decrease in the gross margin for the first quarter of fiscal 2012 as compared to each of the fourth and first quarters of fiscal 2011 was principally attributable to changes in segment product mix, the amortization of acquired Varian inventory step-up and additional inventory charges. Gross margin during the first quarters of fiscal 2012 and 2011 included $13 million and $11 million of share-based compensation expense, respectively. Non-GAAP gross margin for the first quarter of fiscal 2012 was $890 million, up 1.2 points from the fourth quarter of fiscal 2011 and down from $1.1 billion for the first quarter of fiscal 2011. Reconciliations of non-GAAP measures are presented under “Non-GAAP Results” below.

Research, Development and Engineering

Research, Development and Engineering expenses for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	Three Months Ended			Change January 29, 2012 Compared to October 30, 2011	Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012	October 30, 2011	January 30, 2011		
			(In millions)		
Research, development and engineering	$ 304	$ 269	$ 270	$ 35	$ 34

Applied's future operating results depend to a considerable extent on its ability to maintain a competitive advantage in the equipment and service products it provides. Applied believes that it is critical to continue to make substantial investments in RD&E to assure the availability of innovative technology that meets the current and projected requirements of its customers' most advanced designs. Applied historically has maintained its commitment to investing in RD&E in order to continue to offer new products and technologies. The increase in RD&E expense for the first quarter of fiscal 2012 as compared to each of the fourth and first quarters of fiscal 2011 was primarily due to RD&E expenses incurred by Varian of approximately $37 million. RD&E expense during the first quarters of fiscal 2012 and 2011 included $13 million and $10 million of share-based compensation expense, respectively. Development cycles range from 12 to 36 months depending on whether the product is an enhancement of an existing product, which typically has a shorter development cycle, or a new product, which typically has a longer development cycle. Most of Applied's existing products resulted from internal development activities and innovations involving new technologies, materials and processes. In certain instances, Applied acquires technologies, either in existing or new product areas, to complement its existing technology capabilities and to reduce time to market.

Marketing, Selling, General and Administrative

Marketing, selling, general and administrative expenses for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	Three Months Ended			Change January 29, 2012 Compared to October 30, 2011	Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012	October 30, 2011	January 30, 2011		
			(In millions)		
Marketing, selling, general and administrative	$ 303	$ 222	$ 221	$ 81	$ 82

The increase in marketing, selling, general and administrative expenses for the first quarter of fiscal 2012 as compared to the fourth and first quarters of fiscal 2011 was primarily due to the addition of Varian and acquisition-related costs incurred in connection with the Varian acquisition aggregating $86 million. Marketing, selling and general and administrative expenses during the first quarters of fiscal 2012 and 2011 included $27 million and $12 million of share-based compensation expense, respectively.

Restructuring Charges and Asset Impairments

Restructuring charges and asset impairment expenses for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	Three Months Ended			Change January 29, 2012 Compared to October 30, 2011	Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012	October 30, 2011	January 30, 2011		
			(In millions)		
Restructuring charges and asset impairments	$ —	$ —	$ (29)	$ —	$ 29

During the first quarter of fiscal 2011, as a result of changes in Applied's operating environment and business requirements, Applied revised its workforce reduction associated with a restructuring program in its Energy and Environmental Solutions segment announced in the third quarter of fiscal 2010, and recorded a favorable adjustment of $28 million. In addition, Applied favorably adjusted the remaining severance accrual associated with a global restructuring program announced in the first quarter of fiscal 2009 by $4 million. Also, during the first quarter of fiscal 2011, Applied recorded an asset impairment charge of $3 million related to a facility held for sale.

For further details, see Note 11 of Notes to Consolidated Condensed Financial Statements.

Interest and Other Expenses

Interest and other expenses for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	Three Months Ended			Change January 29, 2012 Compared to October 30, 2011	Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012	October 30, 2011	January 30, 2011		
			(In millions)		
Interest and other expenses	$ 24	$ 24	$ 5	$ —	$ 19

Interest and other expenses for the first quarter of fiscal 2012 remained flat as compared to the fourth quarter of fiscal 2011. The increase in interest and other expenses in the first quarter of fiscal 2012 from the first quarter of fiscal 2011 was primarily due to interest of $23 million on senior unsecured notes issued in the third fiscal quarter of 2011.

Interest and Other Income, Net

Interest and other income, net, for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	Three Months Ended			Change January 29, 2012 Compared to October 30, 2011	Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012	October 30, 2011	January 30, 2011		
			(In millions)		
Interest and other income, net	$ 4	$ 10	$ 11	$ (6)	$ (7)

The decrease in interest and other income, net in the first quarter of fiscal 2012 from the fourth quarter of fiscal 2011 was primarily due to a decrease in gains realized on sale of investment securities. The decrease in interest and other income, net in the first quarter of fiscal 2012 from the first quarter of fiscal 2011 was primarily due to a decrease in gains realized on sale of investment securities and lower interest rates.

Income Taxes

Income tax expenses (benefit) for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	Three Months Ended			Change January 29, 2012 Compared to October 30, 2011	Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012	October 30, 2011	January 30, 2011		
				(In millions, except percentages)	
Provision (benefit) for income taxes	$ 42	$ (112)	$ 174	$ 154	$ (132)
Effective income tax rate	26.4%	(32.6)%	25.6%	59.0 points	0.8 point

Applied's effective income tax rate increased to 26.4% for the first quarter of fiscal 2012 from a benefit of 32.6% for the fourth quarter of fiscal 2011 and slightly increased from 25.6% for the first quarter of fiscal 2011. The rate for the fourth quarter of fiscal 2011 included a favorable U.S. Internal Revenue Service audit settlement of $203 million. The rate for the first quarter of fiscal 2011 included the impact of legislation restoring the U.S. federal research and development tax credit, which favorably affected the effective tax rate by 2 percentage points. Applied's future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of Applied's pre-tax income, and the tax rate on equity compensation. Management carefully monitors these factors and timely adjusts the interim income tax rate accordingly.

Segment Information

Applied reports financial results in four segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 16 of Notes to Consolidated Condensed Financial Statements. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level. These unallocated costs include costs for share-based compensation; certain management, finance, legal, human resources, and RD&E 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.

The results for each reportable segment are discussed below.

Silicon Systems Group Segment

The Silicon Systems Group segment includes semiconductor capital equipment for deposition, etch, rapid thermal processing, chemical mechanical planarization, metrology and inspection, wafer packaging and, with the addition of Varian, ion implantation. Development efforts are focused on solving customers' key technical challenges, including transistor performance and nanoscale patterning, and improving chip manufacturing productivity to reduce costs.

The competitive environment for the Silicon Systems Group in the first quarter of fiscal 2012 reflected continued investment in the semiconductor industry driven by capacity demand for mobile computing. Foundry customers led capacity additions for leading edge technology nodes, constituting the primary driver for net sales of the Silicon Systems Group for the first quarter of fiscal 2012. DRAM investment remained low in the period due to lack of profitability and oversupply in the DRAM memory market.

Certain significant measures for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012	October 30, 2011	January 30, 2011	Change January 29, 2012 Compared to October 30, 2011		Change January 29, 2012 Compared to January 30, 2011	
	(In millions, except percentages)						
New orders	$ 1,418	$ 925	$ 1,610	$493	53%	$(192)	(12)%
Net sales	1,344	1,067	1,496	277	26%	(152)	(10)%
Operating income	271	278	543	(7)	(3)%	(272)	(50)%
Operating margin	20%	26%	36%		(6) points		(16) points
Non-GAAP Results							
Operating income	386	284	546	102	36%	(160)	(29)%
Operating margin	29%	27%	36%		2 points		(7) points

New orders for the first quarter of fiscal 2012 increased by $493 million as compared to the fourth quarter of fiscal 2011, reflecting increased demand from foundry customers and the addition of Varian's business. New orders included approximately $210 million for Varian products. New orders decreased by $192 million to $1.4 billion for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011, primarily due to decreased demand from logic customers.

New orders for the Silicon Systems Group by end use application for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012	October 30, 2011	January 30, 2011
Foundry	57%	46%	54%
Memory	29%	22%	23%
Logic and other	14%	32%	23%

Net sales for the first quarter of fiscal 2012 increased by $277 million as compared to the fourth quarter of fiscal 2011 due to increased investment by foundry customers. Net sales included approximately $150 million for Varian products. Net sales decreased by $152 million to $1.3 billion for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011, primarily due to decreased investment by logic customers. Three customers accounted for 69 percent of net sales in this segment for the first quarter of fiscal 2012. Approximately 67 percent of net sales in the first quarter of fiscal 2012 were for orders received and shipped within the quarter.

The segment's book to bill ratio (new orders divided by net sales) for the first quarter of fiscal 2012 increased to 1.1 compared to 0.9 for the fourth quarter of fiscal 2011 and remained essentially flat at 1.1 compared to the first quarter of fiscal 2011. Operating income for the first quarter of fiscal 2012 remained essentially flat compared to the fourth quarter of fiscal 2011, while operating margin decreased from 26 percent in the fourth quarter of fiscal 2011 to 20 percent in the first quarter of fiscal 2012. The decrease in operating margin was primarily attributable to change in customer and product mix with the inclusion of Varian and incremental costs associated with Varian operations. Operating income decreased by $272 million to $271 million for the first quarter of fiscal 2012 compared to first quarter of fiscal 2011, reflecting the decrease in net sales, incremental costs associated with Varian operations, inventory fair value adjustments on products sold, amortization of purchased intangible assets, share-based compensation associated with accelerated vesting and other integration costs associated with the acquisition. Non-GAAP operating income for the first quarter of fiscal 2012 was $386 million or 29 percent of net sales, up from $284 million or 27 percent of net sales from the fourth quarter of fiscal 2011 and down from $546 million or 36 percent of net sales from the first quarter of fiscal 2011. Reconciliations of non-GAAP measures are presented under "Non-GAAP Results" below.

The following regions accounted for at least 30 percent of total net sales for the Silicon Systems Group segment for one or more of the three months ended January 29, 2012, October 30, 2011 or January 30, 2011:

	Three Months Ended						% Change January 29, 2012 Compared to October 30, 2011	% Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012		October 30, 2011		January 30, 2011			
	($)	(%)	($)	(%)	(%)	(%)		
	(In millions, except percentages)							
Korea	552	41	258	24	118	8	114	368
North America	280	21	312	29	487	33	(10)	(43)

In the first quarter of fiscal 2012, customers in Korea and North America accounted for 62 percent of total net sales for this segment. In the first quarter of fiscal 2011, customers in North America and Taiwan accounted for 60 percent of total net sales for the Silicon Systems Group segment.

Applied Global Services Segment

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

Industry conditions that affected Applied Global Services' sales of spares and services in the first quarter of fiscal 2012 were principally semiconductor manufacturers' wafer starts as well as foundry utilization rates.

Certain significant measures for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012	October 30, 2011	January 30, 2011	Change January 29, 2012 Compared to October 30, 2011		Change January 29, 2012 Compared to January 30, 2011	
	(In millions, except percentages)						
New orders	$ 517	$ 564	$ 552	$(47)	(8)%	$(35)	(6)%
Net sales	534	629	567	(95)	(15)%	(33)	(6)%
Operating income	107	160	85	(53)	(33)%	22	26%
Operating margin	20%	25%	15%		(5) points		5 points
Non-GAAP Results							
Operating income	113	162	87	(49)	(30)%	26	30%
Operating margin	21%	26%	15%		(5) points		6 points

New orders for the first quarter of fiscal 2012 decreased by $47 million as compared to the fourth quarter of fiscal 2011, and net sales decreased by $95 million, reflecting lower wafer starts, partially offset by the addition of Varian's business. New orders included approximately $60 million for Varian products and services. Net sales for the fourth quarter of fiscal 2011 included $71 million in sales for two thin film solar projects.

New orders for the first quarter of fiscal 2012 decreased by $35 million to $517 million for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011, and net sales decreased by $33 million. The decreases in new orders and net sales were primarily due to lower demand for refurbished equipment. Net sales included approximately $50 million for Varian products and services. The book to bill ratio was 1.0 for the first quarters of both fiscal 2012 and 2011, and was 0.9 for the fourth quarter of fiscal 2011.

Operating income and non-GAAP operating income for the first quarter of fiscal 2012 both decreased as compared to the fourth quarter of fiscal 2011, reflecting decreased net sales. Operating income increased by $22 million to $107 million for the first quarter of fiscal 2012 compared to first quarter of fiscal 2011. The increase in operating income for the first quarter of fiscal 2012 was a result of improved margins on spares and remanufactured equipment. Non-GAAP operating income for the first quarter of fiscal 2012 was $113 million or 21 percent of net sales, up from $87 million or 15 percent of net sales from the first quarter of fiscal 2011. Reconciliations of non-GAAP measures are presented under "Non-GAAP Results" below.

Display Segment

The Display segment encompasses products for manufacturing LCDs for TVs, personal computers, tablet PCs, smart phones, and other consumer-oriented devices. The segment is focused on expanding market share by differentiation with larger-scale substrates for TVs, entry into new markets such as the low temperature polysilicon (LTPS) and touch panel sectors, and development of products to enable cost reductions through productivity and uniformity.

The competitive environment for Applied's Display segment in the first quarter of fiscal 2012 was characterized by decreased capacity requirements for larger flat panel televisions and growing demand for touch screen devices compared to the prior year. The display industry remains in a down-cycle.

Certain significant measures for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012	October 30, 2011	January 30, 2011	Change January 29, 2012 Compared to October 30, 2011		Change January 29, 2012 Compared to January 30, 2011	
	(In millions, except percentages)						
New orders	$ 40	$ 20	$ 142	$ 20	100%	$(102)	(72)%
Net sales	104	171	147	(67)	(39)%	(43)	(29)%
Operating income	5	31	28	(26)	(84)%	(23)	(82)%
Operating margin	5%	18%	19%		(13) points		(14) points
Non-GAAP Results							
Operating income	7	33	30	(26)	(79)%	(23)	(77)%
Operating margin	7%	19%	20%		(12) points		(13) points

New orders for the first quarter of fiscal 2012 increased by $20 million to $40 million as compared to the fourth quarter of fiscal 2011, while net sales decreased by $67 million to $104 million, reflecting ongoing weakness in LCD TV equipment demand. New orders decreased by $102 million for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 and net sales decreased by $43 million to $104 million. The decrease in new orders and net sales year over year reflected weakness in demand for LCD TV equipment, offset in part by demand for touch panel and LTPS systems to manufacture new mobile devices like smart phones and tablets.

The book to bill ratio slightly increased to 0.4 for the first quarter of fiscal 2012 compared to 0.1 for the fourth quarter of fiscal 2011. The book to bill ratio, however, decreased compared to 1.0 for the first quarter of fiscal 2011, reflecting lower new orders and net sales. For the first quarter of fiscal 2012, operating income decreased by $26 million to $5 million as compared to the fourth quarter of fiscal 2011 and decreased by $23 million compared to first quarter of fiscal 2011 reflecting the decrease in net sales. Non-GAAP operating income for the first quarter of fiscal 2012 was $7 million or 7 percent of net sales, down from $33 million or 19 percent of net sales from the fourth quarter of fiscal 2011 and down from $30 million or 20 percent of net sales from the first quarter of fiscal 2011. Reconciliations of non-GAAP measures are presented under “Non-GAAP Results” below.

The following regions accounted for at least 30 percent of total net sales for the Display segment for one or more of the three months ended January 29, 2012, October 30, 2011 or January 30, 2011:

	Three Months Ended						% Change January 29, 2012 Compared to October 30, 2011	% Change January 29, 2012 Compared to January 30, 2011
	January 29, 2012		October 30, 2011		January 30, 2011			
	($)	(%)	($)	(%)	($)	(%)		
	(In millions, except percentages)							
Taiwan	45	43	60	35	80	54	(25)	(44)
China	18	17	75	44	62	42	(76)	(71)

Four customers accounted for 64 percent of net sales in the Display segment for the first quarter of fiscal 2012. Customers in Taiwan and China continued to account for the majority of net sales in this segment for the first quarter of fiscal 2012.

Energy and Environmental Solutions Segment

The Energy and Environmental Solutions segment includes products for fabricating c–Si solar PVs, high throughput roll-to-roll coating systems for flexible electronics and web products, and systems used in the manufacture of energy-efficient glass. This business is focused on delivering solutions to generate and conserve energy, with an emphasis on lowering the cost to produce solar power by providing equipment to enhance manufacturing scale and efficiency.

Certain significant measures for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 were as follows:

	January 29, 2012	October 30, 2011	January 30, 2011	Change January 29, 2012 Compared to October 30, 2011		Change January 29, 2012 Compared to January 30, 2011	
	(In millions, except percentages)						
New orders	$ 33	$ 86	$ 668	$ (53)	(62)%	$(635)	(95)%
Net sales	207	315	476	(108)	(34)%	(269)	(57)%
Operating income (loss)	(23)	17	144	(40)	(235)%	(167)	(116)%
Operating margin	(11)%	5%	30%		(16) points		(41) points
Non-GAAP Results							
Operating income	(17)	23	122	(40)	(174)%	(139)	(114)%
Operating margin	(8)%	7%	26%		(15) points		(34) points

New orders for the first quarter of fiscal 2012 decreased by $53 million to $33 million as compared to the fourth quarter of fiscal 2011, and net sales decreased by $108 million to $207 million, reflecting solar industry overcapacity. For the first quarter of fiscal 2012, new orders decreased by $635 million and net sales decreased by $269 million. The year over year decreases in new orders and net sales were also due to excess manufacturing capacity. For the first quarter of fiscal 2012, 73 percent of the segment's net sales were from products shipped prior to fiscal 2012 and reported as deferred revenue at October 30, 2011.

The book to bill ratio decreased to 0.2 for the first quarter of fiscal 2012, reflecting decreased demand, compared to 0.3 for the fourth quarter of fiscal 2011 and 1.4 for the first quarter of fiscal 2011. The Energy and Environmental Solutions segment reported an operating loss of $23 million for the first quarter of fiscal 2012 compared to operating income of $17 million for the fourth quarter of fiscal 2011 and $144 million for the first quarter of fiscal 2011, primarily attributable to lower net sales of c-Si solar products and inventory charges of $31 million. Non-GAAP operating loss for the first quarter of fiscal 2012 was $17 million, while non-GAAP operating income was $23 million for the fourth quarter of fiscal 2011 and $122 million for the first quarter of fiscal 2011. Reconciliations of non-GAAP measures are presented under "Non-GAAP Results" below.

The following regions accounted for at least 30 percent of total net sales for the Energy and Environmental Solutions segment for one or more of the three months ended January 29, 2012, October 30, 2011 or January 30, 2011:

	January 29, 2012		October 30, 2011		January 30, 2011		% Change January 29, 2012 Compared to October 30, 2011	% Change January 29, 2012 Compared to January 30, 2011
	($)	(%)	($)	(%)	($)	(%)		
	(In millions, except percentages)							
Taiwan	92	44	39	12	44	9	136	109
China	85	41	224	71	389	82	(62)	(78)

For the first quarter of fiscal 2012, customers in Taiwan and China continued to account for the majority of net sales in this segment.

Financial Condition, Liquidity and Capital Resources

Applied's cash, cash equivalents and investments decreased to $3.0 billion at January 29, 2012 from $7.2 billion at October 30, 2011, primarily due to the completion of the acquisition of Varian.

Cash, cash equivalents and investments consist of the following:

	January 29, 2012	October 30, 2011
	(In millions)	
Cash and cash equivalents	$ 1,681	$ 5,960
Short-term investments	316	283
Long-term investments	955	931
Total cash, cash-equivalents and investments	$ 2,952	$ 7,174

Total cash, cash equivalents and investments decreased by $4.2 billion from October 30, 2011. The decrease in cash was the result of cash paid for the Varian acquisition, stock repurchases and dividends, which were offset in part by cash generated from operations. Cash, cash equivalents and investments at October 30, 2011 included net proceeds from the issuance of $1.75 billion of senior unsecured notes that were issued to assist in funding the Varian acquisition.

A summary of cash provided by (used in) operating, investing, and financing activities is as follows:

	January 29, 2012	January 30, 2011
	(In millions)	
Cash provided by operating activities	$ 181	$ 425
Cash used in investing activities	$ (4,157)	$ (79)
Cash used in financing activities	$ (302)	$ (230)

Applied generated $181 million of cash from operating activities for the three months ended January 29, 2012. The primary sources of cash from operating activities for the three months ended January 29, 2012 were net income, as adjusted to exclude the effect of non-cash charges including depreciation, amortization, share-based compensation, and changes in components of working capital. The change in working capital for the first quarter of fiscal 2012 was negatively impacted by increased payments for variable compensation and interest. Applied did not utilize programs to discount letters of credit issued by customers for the three months ended January 29, 2012. Applied utilized programs to discount letters of credit issued by customers of $123 million for the three months ended January 30, 2011. Discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements. For the three months ended January 29, 2012 and January 30, 2011, Applied factored accounts receivable and discounted promissory notes totaling $70 million and $36 million, respectively. Days sales outstanding for the first quarter of fiscal 2012 increased to 66 days, compared to 64 days at the end of the fourth quarter of fiscal 2011. Days sales outstanding varies due to the timing of shipments and the payment terms. Applied's working capital was $3.7 billion at January 29, 2012 and $7.6 billion at October 30, 2011.

Applied used $4.2 billion of cash for investing activities during the three months ended January 29, 2012. In the first quarter of fiscal 2012, Applied acquired Varian for $4.2 billion, net of cash acquired. Proceeds from sales and maturities of investments, net of purchases of investments, totaled $59 million, and capital expenditures totaled $37 million for the first quarter of fiscal 2012.

Applied used $302 million of cash for financing activities during the three months ended January 29, 2012, consisting primarily of $200 million in common stock repurchases and $104 million in cash dividends paid to stockholders, offset by $2 million in proceeds from common stock issuances related to equity compensation awards. In March 2010, Applied's Board of Directors approved a new stock repurchase program authorizing up to $2.0 billion in repurchases over the next three years ending in March 2013.

In December 2011, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.08 per share that will be paid on March 15, 2012 to stockholders of record as of February 23, 2012. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is 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 by the Board of Directors that cash dividends are in the best interests of Applied's stockholders.

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 four-year revolving credit agreement with a group of banks that is scheduled to expire in May 2015. 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 January 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 these facilities at both January 29, 2012 and October 30, 2011.

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At January 29, 2012, Applied was in compliance with all such covenants. See Note 10 of Notes to Consolidated Condensed Financial Statements for additional discussion of borrowings and long-term debt.

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 January 29, 2012, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $51 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 January 29, 2012, Applied Materials, Inc. has provided parent guarantees to banks for approximately $186 million to cover these services.

Applied's investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, municipal bonds, corporate bonds and mortgage-backed and asset-backed securities, as well as equity securities. Applied regularly monitors the credit risk in its investment portfolio and takes appropriate measures, which may include the sale of certain securities, to manage such risks prudently in accordance with its investment policies.

For the three months ended January 30, 2012, Applied did not recognize any impairment on its investments. At January 30, 2012, Applied had a gross unrealized loss in its investment portfolio of $1 million due to a decrease in the fair value of certain fixed income securities.

During the three months ended January 29, 2012, Applied recorded a bad debt provision of $4 million as a result of certain customers' financial condition. Applied did not record a bad debt provision during the three months ended January 30, 2011. While Applied believes that its allowance for doubtful accounts at January 29, 2012 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

At January 29, 2012, approximately $300 million of cash, cash equivalents and marketable securities held by foreign subsidiaries of Applied may be subject to U.S. taxes if repatriated for U.S. operations. Applied's intent is to permanently reinvest these funds outside of the U.S. and its current plans do not demonstrate a need to repatriate these funds to the U.S.

Although cash requirements will fluctuate based on the timing and extent of factors such as those discussed above, Applied's management believes that cash generated from operations, together with the liquidity provided by existing cash balances and borrowing capability, will be sufficient to satisfy Applied's liquidity requirements for the next 12 months. For further details regarding Applied's operating, investing and financing activities, see the Consolidated Condensed Statements of Cash Flows in this report.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported. Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K and Note 1 to Notes to Consolidated Condensed Financial Statements in this report describe the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies.

A critical accounting policy is defined as one that is both material to the presentation of Applied's consolidated financial statements and that requires management to make difficult, subjective or complex judgments that could have a material effect on Applied's financial condition or results of operations. Specifically, these policies have the following attributes: (1) Applied is required to make assumptions about matters that are highly uncertain at the time of the estimate; and (2) different estimates Applied could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on Applied's financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. Applied bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Applied's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties include those discussed in Part II, Item 1A, "Risk Factors." Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Applied's consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America, and provide a meaningful presentation of Applied's financial condition and results of operations.

Management believes that the following are critical accounting policies:

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. Each sale arrangement may contain commercial terms that differ from other arrangements. In addition, Applied frequently enters into contracts that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the estimated sales price between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could have a material effect on Applied's financial condition and results of operations.

Warranty Costs

Applied provides for the estimated cost of warranty when revenue is recognized. Estimated warranty costs are determined by analyzing specific product, current and historical configuration statistics and regional warranty support costs. Applied's warranty obligation is affected by product and component failure rates, material usage and labor costs incurred in correcting product failures during the warranty period. As Applied's customer engineers and process support engineers are highly trained and deployed globally, labor availability is a significant factor in determining labor costs. The quantity and availability of critical replacement parts is another significant factor in estimating warranty costs. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from Applied's estimates, revisions to the estimated warranty liability would be required, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Allowance for Doubtful Accounts

Applied maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. This allowance is based on historical experience, credit evaluations, specific customer collection history and any customer-specific issues Applied has identified. Changes in circumstances, such as an unexpected material adverse change in a major customer's ability to meet its financial obligation to Applied or its payment trends, may require Applied to further adjust its estimates of the recoverability of amounts due to Applied, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Inventory Valuation

Inventories are generally stated at the lower of cost or market, with cost determined on a first-in, first-out basis. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based upon assumptions about future demand. Applied evaluates the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, inventories are evaluated for potential obsolescence due to the effect of known and anticipated engineering change orders and new products. If actual demand were to be substantially lower than estimated, additional adjustments for excess or obsolete inventory may be required, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Goodwill and Intangible Assets

Applied reviews goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also annually reviews goodwill and intangibles with indefinite lives for impairment. 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. If actual product acceptance differs significantly from the estimates, Applied may be required to record an impairment charge to reduce the carrying value of the reporting unit to its realizable value. The fair value of a reporting unit is estimated using both the income approach and the market approach taking into account such factors as future anticipated operating results and estimated cost of capital. Management uses significant judgment when assessing goodwill for potential impairment, especially in emerging markets. A severe decline in market value could result in an unexpected impairment charge for impaired goodwill, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Income Taxes

The effective tax rate is highly dependent upon the geographic composition of worldwide earnings, tax regulations governing each region, non-tax deductible expenses incurred in connection with acquisitions and availability of tax credits. Management carefully monitors the changes in many factors and adjusts the effective income tax rate as required. If actual results differ from these estimates, Applied could be required to record a valuation allowance on deferred tax assets or adjust its effective income tax rate, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Applied accounts for income taxes by recognizing deferred tax assets and liabilities using statutory tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities, net operating losses and tax credit carryforwards. Deferred tax assets are also reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized. Management has determined that it is more likely than not that Applied's future taxable income will be sufficient to realize its deferred tax assets.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with Applied's expectations could have a material impact on Applied's results of operations and financial condition.

Non-GAAP Results

Management uses non-GAAP results to evaluate the Company's operating and financial performance in light of business objectives and for planning purposes. Applied believes these measures enhance investors' ability to review the Company's business from the same perspective as the Company's management and facilitate comparisons of this period's results with prior periods. The non-GAAP results presented below and elsewhere in this report exclude the impact of the following, where applicable: restructuring and asset impairment charges and any associated adjustment related to restructuring actions, certain discrete tax items, certain acquisition-related costs, investment impairments, and gain or loss on sale of facilities. These non-GAAP measures are not in accordance with GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies. The presentation of this additional information should not be considered a substitute for results prepared in accordance with GAAP.

Non-GAAP operating income for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 was $344 million, $384 million and $659 million, respectively.

Non-GAAP net income for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011 was $240 million or $0.18 per share, $271 million or $0.21 per share and $484 million or $0.36 per share, respectively.

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The following table presents a reconciliation of the GAAP and non-GAAP consolidated results for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011:

APPLIED MATERIALS, INC.

RECONCILIATION OF GAAP TO NON-GAAP RESULTS

	Three Months Ended		
(In millions, except per share amounts)	**January 29, 2012**	**October 30, 2011**	**January 30, 2011**
Non-GAAP Gross Margin			
Reported gross margin (GAAP basis)	$ 786	$ 852	$ 1,136
Certain items associated with acquisitions[1]	104	10	9
Non-GAAP gross margin	$ 890	$ 862	$ 1,145
Non-GAAP gross margin percent (% of net sales)	41%	40%	43%
Non-GAAP Operating Income			
Reported operating income (GAAP basis)	$ 179	$ 361	$ 674
Certain items associated with acquisitions[1]	142	13	13
Varian deal cost	23	10	—
Restructuring charges and asset impairments[2]	—	—	(29)
Loss on sale of facility	—	—	1
Non-GAAP operating income	$ 344	$ 384	$ 659
Non-GAAP operating margin percent (% of net sales)	16%	18%	25%
Non-GAAP Net Income			
Reported net income (GAAP basis)	$ 117	$ 456	$ 506
Certain items associated with acquisitions[1]	142	13	13
Varian deal cost	23	10	—
Restructuring charges and asset impairments[2]	—	—	(29)
Impairment of strategic investments	—	3	—
Loss on sale of facility	—	—	1
Reinstatement of federal R&D tax credit	—	—	(13)
Resolution of audits of prior years' income tax filings	—	(203)	—
Income tax effect of non-GAAP adjustments	(42)	(8)	6
Non-GAAP net income	$ 240	$ 271	$ 484
Non-GAAP Earnings Per Diluted Share			
Reported earnings per diluted share (GAAP basis)	$ 0.09	$ 0.34	$ 0.38
Certain items associated with acquisitions	0.08	0.01	0.01
Varian deal cost	0.01	0.01	—
Restructuring charges and asset impairments	—	—	(0.01)
Reinstatement of federal R&D tax credit and resolution of audits of prior years' income tax filings	—	(0.15)	(0.01)
Non-GAAP earnings per diluted share	$ 0.18	$ 0.21	$ 0.36
Weighted average number of diluted shares	1,310	1,321	1,335

1 These items are incremental charges attributable to acquisitions, consisting of inventory fair value adjustments on products sold, amortization of purchased intangible assets, shared-based compensation associated with accelerated vesting and other integration costs.

2 Results for the three months ended January 30, 2011 included asset impairment charges of $3 million related to a facility held-for-sale, offset by favorable adjustments of $28 million related to a restructuring program announced on July 21, 2010, and $4 million related to a restructuring program announced on November 12, 2008.

The following table presents a reconciliation of the GAAP and non-GAAP segment results for the three months ended January 29, 2012, October 30, 2011 and January 30, 2011:

APPLIED MATERIALS, INC.

RECONCILIATION OF GAAP TO NON-GAAP RESULTS

(In millions, except percentages)	Three Months Ended January 29, 2012	Three Months Ended October 30, 2011	Three Months Ended January 30, 2011
Non-GAAP SSG Operating Income			
Reported operating income (GAAP basis)	$ 271	$ 278	$ 543
Certain items associated with acquisitions[1]	115	3	3
Varian deal cost	—	3	—
Non-GAAP operating income	$ 386	$ 284	$ 546
Non-GAAP operating margin percent (% of net sales)	29%	27%	36%
Non-GAAP AGS Operating Income			
Reported operating income (GAAP basis)	$ 107	$ 160	$ 85
Certain items associated with acquisitions[1]	6	2	2
Non-GAAP operating income	$ 113	$ 162	$ 87
Non-GAAP operating margin percent (% of net sales)	21%	26%	15%
Non-GAAP Display Operating Income			
Reported operating income (GAAP basis)	$ 5	$ 31	$ 28
Certain items associated with acquisitions[1]	2	2	2
Non-GAAP operating income	$ 7	$33	$30
Non-GAAP operating margin percent (% of net sales)	7%	19%	20%
Non-GAAP EES Operating Income (Loss)			
Reported operating income (loss) (GAAP basis)	$ (23)	$ 17	$ 144
Certain items associated with acquisitions[1]	6	6	6
Restructuring charges and asset impairments[2]	—	—	(28)
Non-GAAP operating income (loss)	$ (17)	$ 23	$ 122
Non-GAAP operating margin percent (% of net sales)	(8)%	7%	26%

1 These items are incremental charges attributable to acquisitions, consisting of inventory fair value adjustments on products sold, amortization of purchased intangible assets, share-based compensation associated with accelerated vesting and other integration costs.

2 Results for the three months ended January 30, 2011 included asset impairment charges of $3 million related to a facility held-for-sale, offset by favorable adjustments of $28 million related to a restructuring program announced on July 21, 2010, and $4 million related to a restructuring program announced on November 12, 2008.

Note: Segment non-GAAP operating income does not include deal costs and other acquisition-related costs, which are reported within corporate and unallocated costs.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Applied is exposed to interest rate risk related to its investment portfolio and debt issuances. Applied's investment portfolio includes fixed-income securities with a fair value of approximately $1.2 billion at January 29, 2012. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at January 29, 2012, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $18 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated condensed statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary. At January 29, 2012, the carrying amount of long-term debt was $1.9 billion with an estimated fair value of $2.2 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied's debt issuances of approximately $212 million at January 29, 2012.

Certain operations of Applied are conducted in foreign currencies, such as Japanese yen, euro, Israeli shekel, Taiwanese dollar and Swiss franc. Applied enters into currency forward exchange and option contracts to hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions expected to occur within 24 months. Gains and losses on these contracts are generally recognized in income at the time that the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on currency forward exchange and option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied to risks that would otherwise result from changes in currency exchange rates. Applied does not use derivative financial instruments for trading or speculative purposes. Net foreign currency gains and losses were not material for the three months ended January 29, 2012 and January 30, 2011.

Item 4. ***Controls and Procedures***

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (Exchange Act), Applied's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of Applied's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Applied's disclosure controls and procedures were effective as of the end of the period covered by this report in ensuring that information required to be disclosed in Applied's SEC reports is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to Applied's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d), Applied's management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of Applied's internal control over financial reporting to determine whether any changes occurred during the fiscal quarter that have materially affected, or are reasonably likely to materially affect, Applied's internal control over financial reporting. Based on that evaluation, there has been no such change during the fiscal quarter.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

PART II. OTHER INFORMATION

Item 1. ***LegalProceedings***

The information set forth above under the caption “Legal Matters” in Note 15 contained in Notes to Consolidated Condensed Financial Statements is incorporated herein by reference.

Item 1A. ***RiskFactors***

The risk factors set forth below include any material changes to, and supersede the description of, the risk factors disclosed in Item 1A of Applied’s 2011 Form 10-K. These factors could materially affect Applied’s business, financial condition or results of operations and should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

The industries that Applied serves are volatile and difficult to predict.

As a supplier to the global semiconductor, flat panel display, solar and related industries, Applied is subject to business cycles, the timing, length and volatility of which can be difficult to predict and which vary by reportable segment. These industries historically have been cyclical due to sudden changes in customers’ requirements for new manufacturing capacity and advanced technology, which depend in part on customers’ capacity utilization, production volumes, access to affordable capital, end-use demand, and inventory levels relative to demand, as well as the rate of technology transitions and general economic conditions. These changes have affected the timing and amounts of customers’ purchases and investments in technology, and continue to affect Applied’s orders, net sales, operating expenses and net income.

To meet rapidly changing demand in the industries it serves, Applied must accurately forecast demand and effectively manage its resources and production capacity for each of its segments as well as across multiple segments. During periods of increasing demand for its products, Applied must have sufficient manufacturing capacity and inventory to meet customer demand; effectively manage its supply chain; attract, retain and motivate a sufficient number of qualified employees; and continue to control costs. During periods of decreasing demand, Applied must reduce costs and align its cost structure with prevailing market conditions; effectively manage its supply chain; and motivate and retain key employees. If Applied does not accurately forecast and timely and appropriately adapt to changes in its business environment, Applied’s business, financial condition and results of operations may be materially and adversely affected.

Applied is exposed to risks as a result of ongoing changes in the various industries in which it operates.

The global semiconductor, flat panel display, solar and related industries in which Applied operates are characterized by ongoing changes affecting some or all of these industries, including:

- increasing capital requirements for building and operating new fabrication plants and customers’ ability to raise the necessary capital, particularly when financial market conditions are difficult;
- differences in growth rates among the semiconductor, display and solar industries;
- the increasing importance of establishing, improving and maintaining strong relationships with customers;
- changes in end demand for electronic products over time and the effect of these changes on customers’ businesses and, in turn, on demand for Applied’s products;
- the increasing cost and complexity for customers to move from product design to volume manufacturing, which may slow the adoption rate of new manufacturing technology;
- the need to continually reduce the total cost of manufacturing system ownership, due in part to greater demand for lower-cost consumer electronics compared to business information technology spending;
- the heightened importance to customers of system reliability and productivity and the effect on demand for fabrication systems as a result of their increasing productivity, device yield and reliability;

- the increasing importance of, and difficulties in, developing products with sufficient differentiation to influence customers' purchasing decisions;
- requirements for shorter cycle times for the development, manufacture and installation of manufacturing equipment;
- price and performance trends for semiconductor devices, LCDs and solar PVs, and the corresponding effect on demand for such products;
- the increasing importance of the availability of spare parts to maximize the time that customers' systems are available for production;
- the increasing role for and complexity of software in Applied products; and
- the increasing focus on reducing energy usage and improving the environmental impact and sustainability associated with manufacturing operations.

If Applied does not successfully manage the risks resulting from the ongoing changes in the semiconductor, flat panel display, solar and related industries, its business, financial condition and results of operations could be materially and adversely affected.

Applied is exposed to risks as a result of ongoing changes specific to the semiconductor industry.

The largest proportion of Applied's consolidated net sales and profitability has been and continues to be derived from sales of manufacturing equipment by the Silicon Systems Group to the global semiconductor industry. In addition, a majority of the revenues of Applied Global Services is from sales of service products to semiconductor manufacturers. The semiconductor industry is characterized by ongoing changes particular to that industry in addition to the general industry changes described in the preceding risk factor, including:

- the increasing cost of research and development due to many factors, including: decreasing linewidths on a chip; the use of new materials such as cobalt and yttrium; new and more complex device structures; more applications and process steps; increasing chip design costs; and the increasing cost and complexity of integrated manufacturing processes;
- the cost, technical complexity and timing of a proposed industry transition from 300mm to 450mm wafers, and the resulting effect on demand for manufacturing equipment and services;
- the need to reduce product development time, despite the increasing difficulty of technical challenges;
- the growing number of types and varieties of semiconductors and number of applications across multiple substrate sizes;
- the increasing cost and complexity for semiconductor manufacturers to move more technically advanced capability and smaller linewidths to volume manufacturing, and the resulting impact on the rates of technology transition and investment in capital equipment;
- challenges associated with generating organic growth in light of semiconductor manufacturers' decreasing rate of capital expenditures as a percentage of revenue, and manufacturers' increasing allocation of capital investment to markets that Applied does not serve, such as lithography;
- the increasing frequency and complexity of technology transitions and inflections, such as ALD, 3-D transistors, advanced interconnect, wafer-level packaging, and extreme ultraviolet lithography (EUV);
- shorter cycle times between customers' order placement and product shipment, which may lead to inventory write-offs and manufacturing inefficiencies that decrease gross margin;
- technology developments in related markets, such as lithography, to which Applied may need to adapt;
- competitive factors that make it difficult to enhance market position;
- the importance of increasing market positions in under-penetrated segments, such as etch and inspection;

- the concentration of wafer starts in Korea, where Applied's service penetration and service-revenue-per-wafer-start have been lower than in other regions; and
- the increasing fragmentation of semiconductor markets, leading certain markets to become too small to support the cost of a new fabrication plant, while others require less technologically advanced products.

In addition, changes in market growth rates for different electronic products, such as tablets, smartphones, and personal computers, have led to changes in demand for different devices, such as NAND flash, DRAM, logic, foundry and MRAM, impacting customers' capital spending patterns. For example, industry investment in NAND flash memory, which uses fewer Applied products in manufacturing compared to DRAM, has increased relative to DRAM spending.

If Applied does not successfully manage the risks resulting from the ongoing changes occurring in the semiconductor industry, its business, financial condition and results of operations could be materially and adversely affected.

Applied is exposed to risks as a result of ongoing changes specific to the flat panel display industry.

The global flat panel display industry historically has experienced considerable volatility in capital equipment investment levels, due in part to the limited number of LCD manufacturers, the concentrated nature of LCD end-use applications, and excess production capacity relative to end-use demand. Industry growth has depended primarily on consumer demand for increasingly larger and more advanced LCD TVs, which demand is slowing, and more recently on demand for smartphones and other mobile devices, which demand is highly sensitive to cost and improvements in technologies and features. In addition to the general industry changes described above in the second risk factor, the display industry is characterized by ongoing changes particular to that industry, including:

- the planned expansion of manufacturing facilities in China by Chinese display manufacturers and manufacturers from other countries, and the ability of non-Chinese manufacturers to obtain government approvals on a timely basis;
- the slowing rate of transition to larger substrate sizes for LCD TVs and the resulting effect on capital intensity in the industry and on Applied's product differentiation, gross margin and return on investment;
- the increasing importance of new types of display technologies, such as low temperature polysilicon (LTPS), organic light-emitting diode (OLED) and metal oxide, and new touch panel films, such as anti-reflective and anti-fingerprint; and
- uncertainty with respect to future LCD technology end-use applications and growth drivers.

If Applied does not successfully manage the risks resulting from the ongoing changes occurring in the display industry, its business, financial condition and results of operations could be materially and adversely affected.

Applied is exposed to risks as a result of ongoing changes specific to the solar industry.

Investment levels in capital equipment for the global solar industry have experienced considerable volatility. Current global solar PV production capacity exceeds anticipated near-term, end-use demand, causing customers to delay or reduce investments in manufacturing capacity and new technology. In addition to the general industry changes described above in the second risk factor, the global solar market is characterized by ongoing changes specific to this industry that impact demand for and/or the profitability of Applied's solar products, including:

- the need to continually decrease the cost-per-watt of electricity produced by solar PV products to at or below grid parity by, among other things, reducing operating costs and increasing throughputs for solar PV manufacturing, and improving the conversion efficiency of solar PVs;
- the varying energy policies of governments around the world and their effect in influencing the rate of growth of the solar PV market, including the availability and amount of government incentives for solar

power such as tax credits, feed-in tariffs, rebates, renewable portfolio standards that require electricity providers to sell a targeted amount of energy from renewable sources, and goals for solar installations on government facilities;

- the number of solar PV manufacturers and increasing global production capacity for solar PVs, primarily in China;
- the filing of regulatory unfair trade proceedings against solar PVs from China, where most of Applied's solar equipment sales are concentrated, which could result in the assessment of duties on solar cells and modules imported from China or other outcomes;
- the varying levels of operating and industry experience among solar PV manufacturers and the resulting differences in the nature and extent of customer support services requested from Applied;
- challenges associated with marketing and selling manufacturing equipment and services to a diverse and diffuse customer base;
- the growth of market segments in which Applied does not participate, such as passivation and furnaces;
- the increasing number of government-affiliated entities in China that are becoming customers;
- the cost of polysilicon and other materials; and
- the financial condition of solar PV customers and their access to affordable financing and capital.

If Applied does not successfully manage the risks resulting from the ongoing changes occurring in the solar industry, its business, financial condition and results of operations could be materially and adversely affected.

Applied is exposed to risks associated with the difficult financial markets and uncertain global economy.

Continuing difficulties in the financial markets, national debt concerns in various regions, and uncertainty regarding the global economy are posing challenges, and some governments may implement policies to control economic growth. The markets for semiconductors and flat panel displays in particular depend largely on consumer spending, while the solar market depends in part on government incentives and the availability of financing for PV installations. Economic uncertainty and related factors, including unemployment, inflation and fuel prices, exacerbate negative trends in business and consumer spending and may cause certain Applied customers to push out, cancel, or refrain from placing orders for equipment or services, which may reduce net sales, reduce backlog, and affect Applied's ability to convert backlog to sales. Difficulties in obtaining capital, uncertain market conditions, or reduced profitability may also cause some customers to scale back operations, exit businesses, merge with other manufacturers, or file for bankruptcy protection and potentially cease operations, leading to customers' reducing research and development funding and/or capital expenditures and, in turn, lower sales and/or additional inventory or bad debt expense for Applied. These conditions may also similarly affect key suppliers, which could impair their ability to deliver parts and result in delays for Applied's products or added costs. In addition, these conditions may lead to strategic alliances by, or consolidation of, other equipment manufacturers, which could adversely affect Applied's ability to compete effectively.

Uncertainty about future economic and industry conditions also makes it more challenging for Applied to forecast its operating results, make business decisions, and identify and prioritize the risks that may affect its business, sources and uses of cash, financial condition and results of operations. Applied may be required to implement additional cost reduction efforts, including restructuring activities, and/or modify its business model, which may adversely affect Applied's ability to capitalize on opportunities in a market recovery.

In addition, Applied maintains an investment portfolio that is subject to general credit, liquidity, foreign exchange, market and interest rate risks. The risks to Applied's investment portfolio may be exacerbated if financial market conditions deteriorate and, as a result, the value and liquidity of the investment portfolio, as well as returns on pension assets could be negatively impacted and lead to impairment charges. Applied also maintains cash balances in various bank accounts globally in order to fund normal operations. If one or more of these financial institutions become insolvent or are taken over by a government, it could limit Applied's ability to access cash in the affected accounts.

If Applied does not timely and appropriately adapt to changes resulting from the uncertain macroeconomic environment and industry conditions, or to difficulties in the financial markets. Applied's business, financial condition or results of operations may be materially and adversely affected.

Applied must continually innovate and adapt its business and product offerings to respond to competition and rapid technological changes.

As Applied operates in a highly competitive environment in which innovation is critical, its future success depends on many factors, including the effective commercialization and customer acceptance of its equipment, services and related products. In addition, Applied must successfully execute its growth strategy, including enhancing market share in existing markets, expanding into related markets, cultivating new markets and exceeding industry growth rates, while constantly improving its operational performance. The development, introduction and support of a broadening set of products in more collaborative, geographically diverse, open and varied competitive environments have grown increasingly complex and expensive over time. Furthermore, new or improved products may entail higher costs and reduced profits. Applied's performance may be adversely affected if it does not timely, cost-effectively and successfully:

- identify and address technology inflections, market changes, new applications, customer requirements and end-use demand;
- develop new products (including disruptive technologies), improve and/or develop new applications for existing products, and adapt similar products for use by customers in different applications and/or markets with varying technical requirements;
- appropriately price and achieve market acceptance of its products;
- differentiate its products from those of competitors and any disruptive technologies, and meet customers' performance specifications;
- maintain operating flexibility to enable different responses to different markets, customers and applications;
- enhance its worldwide operations across all business segments to reduce cycle time, enable continuous quality improvement, reduce costs, and enhance design for manufacturability and serviceability;
- focus on sales and marketing strategies that foster strong customer relationships;
- allocate resources, including people and R&D funding, among Applied's products and between the development of new products and the enhancement of existing products, as most appropriate and effective for future growth;
- reduce the cost, and improve the productivity of capital invested in R&D activities;
- accurately forecast demand, work with suppliers and meet production schedules for its products;
- improve its manufacturing processes and achieve cost efficiencies across product offerings;
- adapt to changes in value offered by companies in different parts of the supply chain;
- qualify products for evaluation and, in turn, volume manufacturing with its customers; and
- implement changes in its design engineering methodology, including those that enable reduction of material costs and cycle time, greater commonality of platforms and types of parts used in different systems, greater effectiveness of product life cycle management, and reduced energy usage and environmental impact.

If Applied does not successfully manage these challenges, its business, financial condition and results of operations could be materially and adversely affected.

Applied is exposed to risks associated with a highly concentrated customer base.

Applied's semiconductor customer base historically has been, and is becoming even more, highly concentrated as a result of economic and industry conditions. For example, in the first quarter of fiscal 2012, three semiconductor manufacturers accounted for 69 percent of Silicon Systems Group net sales, and two customers accounted for 39 percent of Applied's consolidated net sales. Applied's flat panel display customer base is also highly concentrated, while concentration within Applied's solar customer base varies depending on the product line. Certain customers have experienced significant ownership or management changes, consolidated with other manufacturers, outsourced manufacturing activities, or engaged in collaboration or cooperation arrangements with other manufacturers. In addition, customers have entered into strategic alliances or industry consortia that have increased the influence of key industry participants in technology decisions made by their partners. Also, certain customers are making an increasingly greater percentage of their respective industry's capital equipment investments.

In addition, Applied's customer base in each of Display and Energy and Environmental Solutions segments is also geographically-concentrated. In the first quarter of fiscal 2012, customers in China and Taiwan accounted for a total of 60 percent of net sales for the Display segment, and 85 percent of net sales for the Energy and Environmental Solutions segment.

In this environment, contracts or orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of Applied's business, which may result in added complexities in managing customer relationships and transactions and make it more challenging for Applied's business units to generate organic growth. In addition, the mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. If customers do not place orders, or they substantially reduce, delay or cancel orders, Applied may not be able to replace the business. As Applied's products are configured to customer specifications, changing, rescheduling or canceling orders may result in significant, non-recoverable costs. Major customers may also seek, and on occasion receive, pricing, payment, intellectual property-related, or other commercial terms that are less favorable to Applied. These factors could have a material adverse effect on Applied's business, financial condition and results of operations.

Operating in multiple industries, and the entry into new markets and industries, entail additional challenges and obligations.

As part of its growth strategy, Applied must successfully expand into related or new markets and industries, either with its existing products or with new products developed internally or obtained through acquisitions. The entry into different markets involves additional challenges, including those arising from:

- the need to devote additional resources to develop new products for, and operate in, new markets;
- the need to develop new sales and marketing strategies and cultivate relationships with new customers;
- differing rates of profitability and growth among multiple businesses;
- Applied's ability to anticipate demand, capitalize on opportunities, and avoid or minimize risks;
- the complexity of managing multiple businesses with variations in production planning, execution, supply chain management and logistics;
- the adoption of new business models;
- the need to undertake activities to grow demand for end-products;
- the need to develop and successfully implement adequate new business processes and systems;
- Applied's ability to rapidly expand or reduce its operations to meet increased or decreased demand, respectively, and the associated effect on working capital;
- new materials, processes and technologies;

- the need to attract, motivate and retain employees with skills and expertise in these new areas;
- new and more diverse customers and suppliers, including some with limited operating histories, uncertain and/or limited funding, evolving business models and/or locations in regions where Applied does not have, or has limited, operations;
- different customer service requirements;
- new or different competitors with potentially more financial or other resources, industry experience and/or established customer relationships;
- entry into new industries and countries, with differing levels of government involvement, laws and regulations, and business, employment and safety practices;
- third parties' intellectual property rights; and
- the need to comply with, or work to establish, industry standards and practices.

In addition, Applied has begun applying for and receiving funding from United States and other government agencies for certain strategic development programs to increase its R&D resources and address new market opportunities. As a condition to this government funding, Applied may be subject to certain record-keeping, audit, intellectual property rights-sharing and/or other obligations.

If Applied does not successfully manage the risks resulting from its diversification and entry into new markets and industries, its business, financial condition and results of operations could be materially and adversely affected.

Applied is exposed to the risks of operating a global business.

In the first fiscal quarter of 2012, approximately 81 percent of Applied's net sales were to customers in regions outside the United States. Certain of Applied's R&D and manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in Singapore, Taiwan, China, Korea, Israel, Germany, Italy and Switzerland. Applied is also expanding its business and operations in new countries. The global nature of Applied's business and operations presents challenges, including but not limited to those arising from:

- varying regional and geopolitical business conditions and demands;
- political and social attitudes, laws, rules, regulations and policies within countries that favor domestic companies over non-domestic companies, including customer- or government-supported efforts to promote the development and growth of local competitors;
- customer- or government-supported efforts to influence Applied to conduct more of its operations in a particular country, such as Korea and China;
- variations among, and changes in, local, regional, national or international laws and regulations (including intellectual property, labor, tax, and import /export laws), as well as the interpretation and application of such laws and regulations;
- global trade issues, including those related to the interpretation and application of import and export licenses, as well as international trade disputes;
- positions taken by governmental agencies regarding possible national commercial and/or security issues posed by international business operations;
- fluctuating raw material, commodity and energy costs;
- challenges associated with managing more geographically diverse operations and projects, which requires an effective organizational structure and appropriate business processes, procedures and controls;
- a more diverse workforce with different experience levels, cultures, customs, business practices and worker expectations;

- variations in the ability to develop relationships with local customers, suppliers and governments;
- fluctuations in interest rates and currency exchange rates, including the relative strength or weakness of the U.S. dollar against the Japanese yen, euro, Taiwanese dollar, Israeli shekel or Chinese yuan;
- the need to provide sufficient levels of technical support in different locations around the world;
- political instability, natural disasters (such as earthquakes, floods or storms), pandemics, social unrest, terrorism or acts of war in locations where Applied has operations, suppliers or sales, or that may influence the value chain of the industries that Applied serves;
- reliance on various information systems, data centers and software applications to conduct many aspects of the Company's business, which may be vulnerable to cyberattacks by third parties or breached due to employee error, misuse or other causes that could result in business disruptions, loss of confidential information, or other adverse consequences in the event that Applied's firewalls and security processes and practices are ineffective;
- the need for an effective business continuity plan if a disaster or other event occurs that could disrupt business operations;
- the need to regularly reassess the size, capability and location of the Company's global infrastructure and make appropriate changes;
- cultural and language differences;
- shipping costs or delays;
- the need to continually improve the Company's operating cost structure;
- difficulties and uncertainties associated with the entry into new countries;
- hiring and integration of an increasing number of new workers, including in countries such as India and China;
- the increasing need for the workforce to be more mobile and work in or travel to different regions;
- uncertainties with respect to economic growth rates in various countries; and
- uncertainties with respect to growth rates for the manufacture and sales of semiconductors, LCDs and solar PVs in the developing economies of certain countries.

Many of these challenges are present in China and Korea, which are experiencing significant growth of customers, suppliers and competitors to Applied. Applied further believes that China and Korea present large potential markets for its products and opportunity for growth over the long term, although at lower projected levels of profitability and margins for certain products than historically have been achieved in other regions. These challenges may materially and adversely affect Applied's business, financial condition and results of operations.

Manufacturing interruptions or delays could affect Applied's ability to meet customer demand and lead to higher costs, while the failure to estimate customer demand accurately could result in excess or obsolete inventory.

Applied's business depends on its timely supply of equipment, services and related products that meet the rapidly changing technical and volume requirements of its customers, which depends in part on the timely delivery of parts, components and subassemblies (collectively, parts) from suppliers, including contract manufacturers. Some key parts are subject to long lead-times and/or obtainable only from a single supplier or limited group of suppliers, and some sourcing or subassembly is provided by suppliers located in countries other than the countries where Applied conducts its manufacturing, including China and Korea. Cyclical industry conditions and the volatility of demand for manufacturing equipment increase capital, technical, operational and other risks for companies throughout Applied's supply chain. Further, the adverse conditions in the credit and financial markets and industry slowdowns have caused, and may continue to cause, some suppliers to scale back operations, exit businesses, merge with other companies, or file for bankruptcy protection and possibly cease operations. Applied may also experience significant interruptions of its manufacturing operations, delays in its ability to deliver products or services, increased costs or customer order cancellations as a result of:

- the failure or inability of suppliers to timely deliver sufficient quantities of quality parts on a cost-effective basis;
- volatility in the availability and cost of materials, including rare earth elements;
- difficulties or delays in obtaining required import or export approvals;
- information technology or infrastructure failures; and
- natural disasters or other events (such as earthquakes, floods or storms, regional economic downturns, pandemics, social unrest, political instability, terrorism, or acts of war).

If a supplier fails to meet Applied's requirements concerning quality, cost, socially-responsible business practices, or other performance factors, Applied may transfer its business to alternative sources, which could entail manufacturing delays, additional costs, or other difficulties. In addition, if Applied needs to rapidly increase its business and manufacturing capacity to meet increases in demand or expedited shipment schedules, this may exacerbate any interruptions in Applied's manufacturing operations and supply chain and the associated effect on Applied's working capital. Moreover, if actual demand for Applied's products is different than expected, Applied may purchase more/fewer parts than necessary or incur costs for canceling, postponing or expediting delivery of parts. If Applied purchases inventory in anticipation of customer demand that does not materialize, or if customers reduce or delay orders, Applied may incur excess inventory charges. Any or all of these factors could materially and adversely affect Applied's business, financial condition and results of operations.

Applied is exposed to risks associated with acquisitions and strategic investments.

Applied has made, and in the future intends to make, acquisitions of or investments in, companies, technologies or products in existing, related or new markets for Applied. In November 2011, Applied completed its acquisition of Varian Semiconductor Equipment Associates, Inc. (Varian), which was the Company's largest acquisition to date. Acquisitions involve numerous risks that vary depending on the scale and nature of the acquisition, including but not limited to:

- diversion of management's attention from other operational matters;
- inability to complete acquisitions as anticipated or at all;
- requirements imposed by government regulators in connection with their review of a transaction, which may include, among other things, divestitures and/or restrictions on the conduct of Applied's existing business or the acquired business;
- ineffective integration of operations, systems, technologies, products or employees of an acquired business;
- inability to realize anticipated synergies or other benefits;
- failure to commercialize purchased technologies;
- initial dependence on unfamiliar supply chains or relatively small supply partners;
- inability to capitalize on characteristics of new markets that may be significantly different from Applied's existing markets and where competitors may have stronger market positions and customer relationships;
- failure to attract, retain and motivate key employees from the acquired business;
- reductions in cash balances and/or increases in debt obligations to finance the acquisition, which reduce the availability of cash flow for general corporate or other purposes;

- exposure to new operational risks, rules, regulations, worker expectations, customs and practices to the extent acquired businesses are located in regions where Applied has not historically conducted business;
- challenges associated with managing new, more diverse and more widespread operations, projects and people;
- inability to obtain and protect intellectual property rights in key technologies;
- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, and/or environmental, health and safety, anti-corruption, human resource, or other policies or practices;
- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements or worse-than-expected performance of the segment;
- the risk of litigation or claims associated with a proposed or completed transaction;
- unknown, underestimated and/or undisclosed commitments or liabilities; and
- the inappropriate scale of acquired entities' critical resources or facilities for business needs.

Applied also makes strategic investments in other companies, including companies formed as joint ventures, which may decline in value and/or not meet desired objectives. The success of these investments depends on various factors over which Applied may have limited or no control and, particularly with respect to joint ventures, requires ongoing and effective cooperation with strategic partners. The risks to Applied's strategic investment portfolio may be exacerbated by unfavorable financial market and macroeconomic conditions and, as a result, the value of the investment portfolio could be negatively impacted and lead to impairment charges. Mergers and acquisitions and strategic investments are inherently subject to significant risks. If Applied does not successfully manage the risks associated with acquisitions and strategic investments, its business, financial condition and results of operations could be materially and adversely affected.

The ability to attract, retain and motivate key employees is vital to Applied's success.

Applied's success, competitiveness and ability to execute on its global strategies and maintain a culture of innovation depend in large part on its ability to attract, retain and motivate key employees, especially in critical positions and in growing markets. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, Applied's organizational structure, competitors' hiring practices, cost reduction activities (including workforce reductions and unpaid shutdowns), availability of career development opportunities, and the effectiveness of Applied's compensation and benefit programs, including its share-based programs. If Applied does not successfully attract, retain and motivate key employees, Applied may be unable to capitalize on its opportunities and its business, financial condition and operating results may be materially and adversely affected.

The failure to successfully implement and conduct outsourcing activities and other operational initiatives could adversely affect results of operations.

To better align its costs with market conditions, locate closer to customers, enhance productivity, and improve efficiencies, Applied conducts certain engineering, software development, manufacturing, sourcing and other operations in regions outside the United States, including India, Taiwan, China, and Korea. Applied has implemented a distributed manufacturing model, under which certain manufacturing and supply chain activities are conducted in various countries, including the United States, Europe, Israel, Singapore, Taiwan and other countries in Asia, and assembly of some systems is completed at customer sites. In addition, Applied outsources certain functions to third parties, including companies in the United States, India, China, Korea, Malaysia and other countries. Outsourced functions include contract manufacturing, engineering, customer support, software development, information technology support, finance and administrative activities. The expanding role of third party providers has required changes to Applied's existing operations and the adoption of new procedures and processes for retaining and managing these providers, as well as redistributing responsibilities as warranted, in order to realize the potential productivity and operational efficiencies, assure quality and continuity of supply, and protect the intellectual property of Applied and its customers, suppliers and other partners. If Applied does not accurately forecast the amount, timing and mix of demand for products, or if contract manufacturers or other outsource providers fail to perform in a timely manner or at satisfactory quality levels, Applied's ability to meet customer requirements could suffer, particularly during a market upturn.

In addition, Applied must regularly implement or update comprehensive programs and processes to better align its global organizations, including initiatives to enhance the Asia supply chain and improve back office and information technology infrastructure for more efficient transaction processing. Applied also is implementing a multi-year, company-wide program to transform certain business processes or extend established processes, including the transition to a single enterprise resource planning (ERP) software system to perform various functions. The implementation of additional functionality to the ERP system entails certain risks, including difficulties with changes in business processes that could disrupt Applied's operations, such as its ability to track orders and timely ship products, project inventory requirements, manage its supply chain and aggregate financial and operational data. During transitions Applied must continue to rely on legacy information systems, which may be costly or inefficient, while the implementation of new initiatives may not achieve the anticipated benefits and may divert management's attention from other operational activities, negatively affect employee morale, or have other unintended consequences.

If Applied does not effectively develop and implement its outsourcing and relocation strategies, if required export and other governmental approvals are not timely obtained, if Applied's third party providers do not perform as anticipated, or if there are delays or difficulties in enhancing business processes, Applied may not realize anticipated productivity improvements or cost efficiencies, and may experience operational difficulties, increased costs (including energy and transportation), manufacturing interruptions or delays, inefficiencies in the structure and/or operation of its supply chain, loss of its intellectual property rights, quality issues, increased product time-to-market, and/or inefficient allocation of human resources, any or all of which could materially and adversely affect Applied's business, financial condition and results of operations.

Applied may incur impairment charges to goodwill or long-lived assets.

Applied has a significant amount of goodwill and other acquired intangible assets related to acquisitions. 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 more frequently when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The review compares the fair value for each of Applied's reporting units to its associated carrying value, including goodwill. Factors that could lead to impairment of goodwill and intangible assets include adverse industry or economic trends, reduced estimates of future cash flows, declines in the market price of Applied common stock, changes in Applied's strategies or product portfolio, and restructuring activities. Applied's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. Applied may be required to record a charge to earnings during the period in which an impairment of goodwill or amortizable intangible assets is determined to exist, which could materially and adversely affect Applied's results of operations.

Applied is exposed to various risks related to legal proceedings or claims and protection of intellectual property rights.

Applied from time to time is, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, antitrust, environmental regulations, securities, contracts, product performance, product liability, unfair competition, misappropriation of trade secrets, employment, workplace safety, and other matters. Applied also on occasion receives notification from customers who believe that Applied owes them indemnification or other obligations related to claims made against such customers by third parties.

In February 2010, the Seoul Prosecutor's Office for the Eastern District in Korea indicted certain employees of Applied Materials Korea (AMK), including the former head of AMK who at the time of indictment was a vice president of Applied Materials, Inc., along with employees of several other companies, alleging the improper receipt and use of confidential information of Samsung Electronics Co., Ltd. (Samsung), a major customer. 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, which resolved potential civil claims related to this matter and which is separate from and does not affect the criminal proceedings.

Legal proceedings and claims, whether with or without merit, and associated internal investigations, may (1) be time-consuming and expensive to prosecute, defend or conduct; (2) divert management's attention and other Applied resources; (3) inhibit Applied's ability to sell its products; (4) result in adverse judgments for damages, injunctive relief, penalties and fines; and/or (5) negatively affect Applied's business. There can be no assurance regarding the outcome of current or future legal proceedings, claims or investigations. If Applied is not able to favorably resolve or settle legal proceedings or claims, or in the event of any adverse findings against Applied or any of its employees, Applied's business, financial condition and results of operations could be materially and adversely affected and Applied may suffer harm to its reputation.

Applied's success depends in significant part on the protection of its intellectual property and other rights. Infringement of Applied's rights by a third party, such as the unauthorized manufacture or sale of equipment or spare parts, could result in uncompensated lost market and revenue opportunities for Applied. Applied's intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, or if Applied does not adequately protect or assert these rights. Furthermore, the laws and practices of other countries, including China, India, Taiwan and Korea, permit the protection and enforcement of Applied's rights to varying extents, which may not be sufficient to adequately protect Applied's rights. Applied previously entered into an arrangement with one of its competitors to decrease the risk of patent infringement lawsuits in the future. There can be no assurance that the intended results of this arrangement will be achieved or that Applied will be able to adequately protect its intellectual property rights with the restrictions associated with the arrangement. If Applied is not able to favorably resolve or settle claims, obtain or enforce intellectual property rights, obtain necessary licenses on commercially reasonable terms, and/or successfully prosecute or defend its intellectual property position, Applied's business, financial condition and results of operations could be materially and adversely affected and Applied may suffer harm to its reputation.

Changes in tax rates or tax assets and liabilities could affect results of operations.

As a global company, Applied is subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's future annual and quarterly tax rates could be affected by numerous factors, including changes in the: (1) applicable tax laws; (2) amount and composition of pre-tax income in countries with differing tax rates; (3) plans of the Company to permanently reinvest certain funds held outside of the U.S.; or (4) valuation of Applied's deferred tax assets and liabilities.

To better align with the increasingly international nature of its business, Applied is transitioning certain manufacturing, supply chain, and other operations into Asia, bringing these activities closer to customers. These changes are expected to result in a reduction of future operating costs. Applied has received authorization to use tax incentives that provide that income earned in certain countries outside the U.S. will be subject to tax holidays or reduced income tax rates. To obtain the benefit of these tax provisions, Applied must meet requirements relating to various activities. Applied's ability to realize benefits from these provisions could be materially affected if, among other things, applicable requirements are not met, or if Applied incurs net losses for which it cannot claim a deduction.

In addition, Applied is subject to regular examination by the Internal Revenue Service and other tax authorities, and from time to time initiates amendments to previously filed tax returns. Applied regularly assesses the likelihood of favorable or unfavorable outcomes resulting from these examinations and amendments to determine the adequacy of its provision for income taxes, which requires estimates and judgments. Although Applied believes its tax estimates are reasonable, there can be no assurance that the tax authorities will agree with such estimates. Applied may have to engage in litigation to achieve the results reflected in the estimates, which may be time-consuming and expensive. There can be no assurance that Applied will be successful or that any final determination will not be materially different from the treatment reflected in Applied's historical income tax provisions and accruals, which could materially and adversely affect Applied's financial condition and results of operations.

Applied is subject to risks of non-compliance with environmental and safety regulations.

Applied is subject to environmental and safety regulations in connection with its global business operations, including but not limited to: regulations related to the development, manufacture and use of its products; recycling and disposal of materials used in its products or in producing its products; the operation of its facilities; and the use of its real property. The failure or inability to comply with existing or future environmental and safety regulations, such as those related to climate change, could result in: (1) significant remediation liabilities; (2) the imposition of fines; (3) the suspension or termination of the development, manufacture, sale or use of certain of its products; (4) limitations on the operation of its facilities or ability to use its real property; and/or (5) a decrease in the value of its real property, each of which could have a material adverse effect on Applied's business, financial condition and results of operations.

Applied is exposed to various risks related to the regulatory environment.

Applied is subject to various risks related to: (1) new, different, inconsistent or even conflicting laws, rules and regulations that may be enacted by executive order, legislative bodies and/or regulatory agencies in the countries in which Applied operates; (2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules and regulations. For example, as a public company with global operations, Applied is subject to the laws of multiple jurisdictions and the rules and regulations of various governing bodies, including those related to financial and other disclosures, corporate governance, privacy, and anti-corruption. Changes in laws, regulations and standards may create uncertainty regarding compliance matters. Efforts to comply with new and changing regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If Applied is found by a court or regulatory agency not to be in compliance with applicable laws, rules or regulations, Applied could be subject to legal or regulatory sanctions, the public's and customers' perception of Applied could decline, and Applied's business, financial condition and results of operations could be materially and adversely affected.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

The following table provides information as of January 29, 2012 with respect to the shares of common stock repurchased by Applied during the first quarter of fiscal 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program*	Maximum Dollar Value of Shares That May Yet be Purchased Under the Program*
	(In millions, except per share amounts)			
Month #1				
(October 31, 2011 to November 27, 2011)	2.5	$ 10.94	2.5	$ 1,155
Month #2				
(November 28, 2011 to December 25, 2011)	8.8	$ 10.66	8.8	$ 1,061
Month #3				
(December 26, 2011 to January 29, 2012)	7.0	$ 11.33	7.0	$ 982
Total	18.3	$ 10.95	18.3	

* On March 8, 2010, the Board of Directors approved a stock repurchase program for up to $2.0 billion in repurchases over the next three years, ending March 2013.

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Item 6. ***Exhibits***

Exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K:

Exhibit No.	Description	Incorporated by Reference			
		Form	File No.	Exhibit No.	Filing Date
3.1	Amended and Restated Bylaws of Applied Materials, Inc., effective December 6, 2011	8-K	000-06920	3.1	12/7/2011
10.1	Form of Performance Unit Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended†				
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				

† Filed herewith.

‡ Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

APPLIED MATERIALS, INC.

By: /s/ GEORGE S. DAVIS
George S. Davis
Executive Vice President,
Chief Financial Officer
(Principal Financial Officer)

February 27, 2012

By: /s/ THOMAS S. TIMKO
Thomas S. Timko
Corporate Vice President,
Corporate Controller
and Chief Accounting Officer
(Principal Accounting Officer)

February 27, 2012

[EMPL_NAME]
Employee ID: [**EMPLID**]
Grant Number: [**GRANT_ID**]

APPLIED MATERIALS, INC.

PERFORMANCE UNITS AGREEMENT

NOTICE OF GRANT

Applied Materials, Inc. (the “Company”) hereby grants you, **[EMPL_NAME]** (the “Employee”), an award of Performance Units under the Company’s Employee Stock Incentive Plan (the “Plan”). The date of this Performance Units Agreement (the “Agreement”) is **[GRANT_DT]** (the “Grant Date”). Subject to the provisions of the Terms and Conditions of Performance Units Agreement (the “Terms and Conditions”), which constitute part of this Agreement, and of the Plan, the principal features of this Award are as follows:

Number of Performance Units:	**[MAX_SHARES]**
Vesting of Performance Units:	Please refer to the UBS One Source website for the vesting schedule related to this grant of Performance Units (click on the specific grant under the tab labeled “Grants/Awards/Units.”).*

* Except as otherwise provided in the Terms and Conditions of this Agreement, Employee will not vest in the Performance Units unless he or she is employed by the Company or one of its Affiliates through the applicable vesting date.

IMPORTANT:

Your electronic or written signature below indicates your agreement and understanding that this grant is subject to all of the terms and conditions contained in the Terms and Conditions to this Agreement and the Plan. For example, important additional information on vesting and forfeiture of this grant is contained in paragraphs 3 through 5 and paragraph 7 of the Terms and Conditions. **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS OF THIS GRANT. CLICK HERE TO READ THE TERMS AND CONDITIONS.**

By clicking the “ACCEPT” button below, you agree to the following: “**This electronic contract contains my electronic signature, which I have executed with the intent to sign this Agreement**.”

Please be sure to retain a copy of your returned electronically signed Agreement; you may obtain a paper copy at any time and at the Company's expense by requesting one from Stock Programs (see paragraph 12 of the Terms and Conditions). If you prefer not to electronically sign this Agreement, you may accept this Agreement by signing a paper copy of the Agreement and delivering it to Stock Programs.

For Employees employed in China on the Grant Date: Under the State Administration of Foreign Exchange ("SAFE") regulations, the receipt of funds by you from the sale of Performance Units must be approved by SAFE. In order to comply with the SAFE regulations, the proceeds from the sale of Performance Units must be repatriated into China through an approved bank account set up and monitored by the Company.

For Employees employed in the United Kingdom (U.K.) on the Grant Date: *National Insurance Contribution ("NIC")* The grant of your Performance Units is subject to the execution of a joint election between the Company and you (the "Election"), being formally approved by the H.M. Revenue & Customs (the "HMR&C") and remaining in force thereafter under which you agree to pay all NICs that may become due in connection with the grant or vesting of Performance Units. The NICs include the "primary" NIC payable by an employee as well as the "secondary" NIC payable by the employer in the absence of any election (referred to as the Secondary Class 1 NIC). By accepting the Performance Units, to the extent allowable by applicable law, you hereby consent and agree to satisfy any liability the Company and/or your employer realizes with respect to Secondary Class 1 NIC payments required to be paid by the Company and/or your employer in connection with the grant or vesting of the Performance Units.

In addition, by accepting the Performance Units, you hereby authorize the Company or your employer to withhold any such Secondary Class 1 NICs from the sale of a sufficient number of Shares upon vesting of the Performance Units. In addition and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from salary or other amounts payable to you to satisfy such Secondary Class 1 NICs. The Company, in its discretion, may require you, and you hereby agree, to make payment on demand for such contributions by cash or check to UBS Financial Services, Inc., the Company or your employer, and such contributions will be remitted to the HMR&C. If additional consents and/or elections are required to accomplish the foregoing, you agree to provide them promptly upon request. If the foregoing is not allowed under applicable law, the Company may rescind your Performance Units. If you do not enter an Election prior to the first vesting date or if the Election is revoked at any time by the HMR&C, the Performance Units shall become null and void without any liability to the Company and/or your employer and shall lapse with immediate effect.

TERMS AND CONDITIONS OF

PERFORMANCE UNITS AGREEMENT

1. Grant. Applied Materials, Inc. (the “Company”) hereby grants to the Employee under the Company’s Employee Stock Incentive Plan (the “Plan”) the number of Performance Units set forth on the first page of the Notice of Grant of this Agreement, subject to all of the terms and conditions in this Agreement and the Plan. Vested Performance Units will be paid to the Employee in Shares. When Shares are paid to the Employee in payment for the Performance Units, par value will be deemed paid by the Employee for each Performance Unit by past services rendered by the Employee, and will be subject to the appropriate tax withholdings. Unless otherwise defined herein, capitalized terms used herein will have the meanings ascribed to them in the Plan.

2. Company’s Obligation to Pay. Each Performance Unit has a value equal to the Fair Market Value of a Share and represents the right to receive a Share on the date it vests. Unless and until the Performance Units have vested in the manner set forth in paragraphs 3 through 5, or paragraph 11, the Employee will have no right to payment of such Performance Units. Prior to actual payment of any vested Performance Units, such Performance Units will represent an unsecured obligation. Payment of any vested Performance Units will be made in whole Shares only, provided, however, that if the Company determines that it is necessary or advisable, the Shares subject to this Performance Unit award shall be sold immediately upon settlement of the Performance Units award, and the Employee shall receive the proceeds from the sale, less any applicable fees and taxes or other required withholding.

3. Vesting Schedule/Period of Restriction. Except as provided in paragraphs 4, 5 and 11, and subject to paragraph 7, the Performance Units awarded by this Agreement will vest in accordance with the vesting provisions set forth on the UBS One Source website (click on the specific grant under the tab labeled “Grants/Awards/Units”). Performance Units will not vest in the Employee in accordance with any of the provisions of this Agreement unless the Employee will have been continuously employed by the Company or by one of its Affiliates from the Grant Date until the date the Performance Units are otherwise scheduled to vest occurs.

4. Modifications to Vesting Schedule**.**

(a) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence (“PLOA”), the Performance Units awarded by this Agreement that are scheduled to vest will be modified as follows:

(i) if the duration of the Employee’s PLOA is six (6) months or less, the vesting schedule set forth on the UBS One Source website (click on the specific grant under the tab labeled “Grants/Awards/Units”) will not be affected by the Employee’s PLOA.

(ii) if the duration of the Employee’s PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled vesting of any Performance Units awarded by this Agreement that are not then vested will be deferred for a period of time equal to the duration of the Employee’s PLOA less six (6) months.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any Performance Units awarded by this Agreement that are not then vested will immediately terminate.

(iv) Example 1. Employee is scheduled to vest in Performance Units on January 1, 2007. On May 1, 2006, Employee begins a six-month PLOA. Employee's Performance Units will still be scheduled to vest on January 1, 2007.

(v) Example 2. Employee is scheduled to vest in Performance Units on January 1, 2007. On May 1, 2006, Employee begins a nine-month PLOA. Employee's Performance Units awarded by this Agreement that are scheduled to vest after November 2, 2006 will be modified (this is the date on which the Employee's PLOA exceeds six (6) months). Employee's Performance Units now will be scheduled to vest on April 1, 2007 (three (3) months after the originally scheduled date).

(vi) Example 3. Employee is scheduled to vest in Performance Units on January 1, 2007. On May 1, 2006, Employee begins a 13-month PLOA. Employee's Performance Units will terminate on May 2, 2007.

In general, a "personal leave of absence" does not include any legally required leave of absence. The duration of the Employee's PLOA will be determined over a rolling twelve (12) month measurement period. Performance Units awarded by this Agreement that are scheduled to vest during the first six (6) months of the Employee's PLOA will continue to vest as scheduled. However, Performance Units awarded by this Agreement that are scheduled to vest after the first six (6) months of the Employee's PLOA will be deferred or terminated depending on the length of the Employee's PLOA. The Employee's right to vest in Performance Units awarded by this Agreement will be modified as soon as the duration of the Employee's PLOA exceeds six (6) months.

(b) *Death of Employee*. In the event that the Employee incurs a Termination of Service due to his or her death, one hundred percent (100%) of the Performance Units subject to this Performance Units award will vest on the date of the Employee's death. In the event that any applicable law limits the Company's ability to accelerate the vesting of this award of Performance Units, this paragraph 4(b) will be limited to the extent required to comply with applicable law. If the Employee is subject to Hong Kong's ORSO provisions, this paragraph 4(b) will not apply to this award of Performance Units.

5. Committee Discretion. The Committee, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the Performance Units at any time, subject to the terms of the Plan. If so accelerated, such Performance Units will be considered as having vested as of the date specified by the Committee. Subject to the provisions of this paragraph 5, if the Committee, in its discretion, accelerates the vesting of the balance, or some lesser portion of the balance, of the Performance Units, the payment of such accelerated Performance Units shall be made as soon as practicable upon or following the accelerated vesting date, but in no event later than 60 days following the date such accelerated Performance Units vest.

Notwithstanding anything in the Plan or this Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Performance Units is accelerated in connection with Employee's Termination of Service (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death**,** and if (a) the Employee is a "specified employee" within the meaning of Section 409A at the time of such Termination of Service and (b) the payment of such accelerated Performance Units will result in the imposition of additional tax under Section 409A if paid to the Employee on or within the six (6) month period following Employee's Termination of Service, then the payment of such accelerated Performance Units will not be made until the date six (6) months and one (1) day following the date of Employee's Termination of Service, unless the Employee dies following his or her Termination of Service, in which case, the Performance Units will be paid in Shares to the Employee's estate as soon as practicable following his or her death. It is the intent of this Agreement to be exempt from or comply with the requirements of Section 409A so that none of the Performance Units provided under this Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or comply. For purposes of this Agreement, "Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any proposed, temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

6. Payment after Vesting. Any Performance Units that vest in accordance with paragraphs 3 or 4 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in whole Shares as soon as practicable following the date of vesting, but in all cases within 60 days following the date such Performance Units vest, subject to paragraph 8. Any Performance Units that vest in accordance with paragraphs 5 or 11 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in whole Shares in accordance with the provisions of such paragraphs, subject to paragraph 8. For each Performance Unit that vests, the Employee will receive one Share, subject to paragraph 8.

7. Forfeiture. Notwithstanding any contrary provision of this Agreement and except in the event of Employee's death (see Paragraph 4(b)), the balance of the Performance Units that have not vested pursuant to paragraphs 3 through 5 or paragraph 11 at the time of the Employee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company. *[To be included for Awards subject to performance-based vesting:* Notwithstanding anything to the contrary in the Plan or this Agreement, the Board, in its sole discretion, may require the Employee to forfeit, return or reimburse the Company all or a portion of the Performance Units subject to this Award in accordance with paragraph 16 of the Agreement.]

8. Withholding of Taxes. When Shares are issued as payment for vested Performance Units or, in the discretion of the Company, such earlier time as the Tax Obligations (defined below) are due, the Company (or the employing Affiliate) will withhold a portion of the Shares that have an aggregate market value sufficient to pay all taxes and social insurance liability and other requirements in connection with the Shares, including, without limitation, (a) all federal, state and local income, employment and any other applicable taxes that are required to be withheld by the Company or the employing Affiliate, (b) the Employee's and, to the extent required by the Company (or the employing Affiliate), the Company's (or the employing Affiliate's) fringe benefit tax

liability, if any, associated with the grant, vesting, or sale of the Performance Units awarded and the Shares issued thereunder, and (c) all other taxes or social insurance liabilities with respect to which the Employee has agreed to bear responsibility (collectively, the "Tax Obligations"). The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund provided in the U. S. for any value of the Shares withheld in excess of the tax obligation as a result of such rounding. Notwithstanding the foregoing, the Company, in its sole discretion, may require the Employee to make alternate arrangements satisfactory to the Company for such withholdings or remittances in advance of the arising of any remittance obligations to which the Employee has agreed or any withholding obligations.

Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any income and other taxes which the Company determines must be withheld or collected with respect to such Shares. In addition and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any Tax Obligations that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares or that are due prior to the issuance of Shares under the Performance Units award. All Tax Obligations related to the Performance Units award and any Shares delivered in payment thereof are the sole responsibility of the Employee. Further, Employee shall be bound by any additional withholding requirements included in the Notice of Grant of this Agreement.

9. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (including through electronic delivery to a brokerage account). Notwithstanding any contrary provisions in this Agreement, any quarterly or other regular, periodic dividends or distributions (as determined by the Company) paid on Shares will affect neither unvested Performance Units nor Performance Units that are vested but unpaid, and no such dividends or other distributions will be paid on unvested Performance Units or Performance Units that are vested but unpaid. After such issuance, recordation and delivery, the Employee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

10. No Effect on Employment. Subject to any employment contract with the Employee, the terms of such employment will be determined from time to time by the Company, or the Affiliate employing the Employee, as the case may be, and the Company, or the Affiliate employing the Employee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the vesting schedule set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units") do not constitute an express or implied promise of continued employment for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company or the Affiliate employing the Employee, as the case may be, will not be deemed a Termination of Service for the purposes of this Agreement.

11. Changes in Performance Units. In the event that as a result of a stock or extraordinary cash dividend, stock split, distribution, reclassification, recapitalization, combination of Shares or the adjustment in capital stock of the Company or otherwise, or as a result of a merger, consolidation, spin-off or other corporate transaction or event, the Performance Units will be increased, reduced or otherwise affected, and by virtue of any such event the Employee will in his or her capacity as owner of unvested Performance Units which have been awarded to him or her (the “Prior Performance Units”) be entitled to new or additional or different shares of stock, cash or other securities or property (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities or property will thereupon be considered to be unvested Performance Units and will be subject to all of the conditions and restrictions that were applicable to the Prior Performance Units pursuant to this Agreement and the Plan. If the Employee receives rights or warrants with respect to any Prior Performance Units, such rights or warrants may be held or exercised by the Employee, provided that until such exercise, any such rights or warrants, and after such exercise, any shares or other securities acquired by the exercise of such rights or warrants, will be considered to be unvested Performance Units and will be subject to all of the conditions and restrictions which were applicable to the Prior Performance Units pursuant to the Plan and this Agreement. The Committee in its sole discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants; provided, however, that the payment of such accelerated new or additional awards will be made in accordance with the provisions of paragraph 5.

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 2881 Scott Boulevard, M/S 2023, P. O. Box 58039, Santa Clara, CA 95050, U.S.A., or at such other address as the Company may hereafter designate in writing.

13. Grant is Not Transferable. Except to the limited extent provided in this Agreement, this grant of Performance Units and the rights and privileges conferred hereby shall not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process, until the Employee has been issued Shares in payment of the Performance Units. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

14. Restrictions on Sale of Securities. The Shares issued as payment for vested Performance Units under this Agreement will be registered under U. S. federal securities laws and will be freely tradable upon receipt. However, Employee’s sale of the Shares may be subject to any market blackout period that may be imposed by the Company and must comply with the Company’s insider trading policies, and any other applicable securities laws.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. *[To be included for Awards subject to performance-based vesting:* Clawback in Connection with a Material Negative Financial Restatement. Pursuant to the Company's clawback policy, the Board, in its sole discretion, may require the Employee to forfeit, return or reimburse the Company all or a portion of his or her Performance Units subject to this Award if (i) the Employee is or was a Section 16 Person during the performance period applicable to the performance-based vesting of the Performance Units, and (ii) the Employee deliberately engaged in "Intentional Misconduct" (as defined below) that was determined by the Board, in its sole discretion, to be the primary cause of a material negative restatement of a Company financial statement that was filed with the U.S. Securities and Exchange Commission and such financial statement, as originally filed, is one of the Company's three (3) most recently filed annual financial statements. The portion of this Award, if any, that the Employee may be required to forfeit, return or reimburse will be determined by the Board, in its sole discretion, but will be no more than the "Clawback Maximum" (as defined below).

(a) For purposes of this Agreement, "Clawback Maximum" means the portion of the Award that was in excess of the Shares that the Employee would have received under this Award had the Company's financial results been calculated under the restated financial statements .

(b) To the extent Tax Obligations on such Performance Units were paid or due, such forfeiture, return or reimbursement shall be limited to the after-tax portion of the Clawback Maximum.

For purposes of this Agreement, "Intentional Misconduct" means the Employee's deliberate engagement in any one or more of the following: (a) fraud, misappropriation, embezzlement or any other act or acts of similar gravity resulting or intended to result directly or indirectly in substantial personal enrichment to the Employee at the expense of the Company; (b) a material violation of a federal, state or local law or regulation applicable to the Company's business that has a significant negative effect on the Company's financial results; or (c) a material breach of the Employee's fiduciary duty owed to the Company that has a significant negative effect on the Company's financial results; provided, however, that the Employee's exercise of judgment or actions (or abstention from action), and/or decision-making will not constitute Intentional Misconduct if such judgment, action (or abstention from action) and/or decision is, in the good faith determination of the Board, reasonable based on the facts and circumstances known to the Employee at the time of such judgment, action (or abstention from action) and/or decision; and such judgment, action (or abstention from action) and/or decision is in an area or situation in which (i) discretion must be exercised by the Employee or (ii) differing views or opinions may apply. *]*

17. Additional Conditions to Issuance of Certificates for Shares. The Company will not be required to issue any certificate or certificates (which may be in book entry form) for Shares hereunder prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any U. S. state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental

regulatory body, which the Committee will, in its sole discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any U. S. state or federal governmental agency, which the Committee will, in its sole discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of vesting of the Performance Units as the Committee may establish from time to time for reasons of administrative convenience.

18. Plan Governs. This Agreement is subject to all the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

19. Committee Authority. The Committee will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Performance Units have vested). All actions taken and all interpretations and determinations made by the Committee in good faith will be final and binding upon the Employee, the Company and all other interested persons. No member of the Committee will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

20. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

21. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

22. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A prior to the actual payment of Shares pursuant to this award of Performance Units.

23. Amendment, Suspension or Termination of the Plan. By accepting this Performance Units award, the Employee expressly warrants that he or she has received a right to receive stock under the Plan, and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

24. Labor Law. By accepting this Performance Units award, the Employee acknowledges that: (a) the grant of these Performance Units is a one-time benefit which does not create any contractual or other right to receive future grants of Performance Units, or benefits in lieu

of Performance Units; (b) all determinations with respect to any future grants, including, but not limited to, the times when the Performance Units will be granted, the number of Performance Units subject to each Performance Unit award and the time or times when the Performance Units will vest, shall be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of these Performance Units is an extraordinary item of compensation which is outside the scope of the Employee's employment contract, if any; (e) these Performance Units are not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Performance Units shall cease upon termination of employment for any reason except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Performance Units have been granted to the Employee in the Employee's status as an employee of the Company or its Affiliates; (i) any claims resulting from these Performance Units will be enforceable, if at all, against the Company; and (j) there shall be no additional obligations for any Affiliate employing the Employee as a result of these Performance Units.

25. Disclosure of Employee Information. By accepting this Performance Units award, the Employee consents to the collection, use and transfer of personal data as described in this paragraph. The Employee understands that the Company and its Affiliates hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all awards of Performance Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan ("Data").

The Employee further understands that the Company and/or its Affiliates will transfer Data among themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the Company and/or any of its Affiliates may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. or Asia.

The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer to a broker or other third party with whom he or she may elect to deposit any Shares of stock acquired from this award of Performance Units of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. The Employee understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the Human Resources department and/or the Stock Programs Administrator for the Company and/or its applicable Affiliates. The Employee understands, however, that refusing or withdrawing the Employee's consent may affect the Employee's ability to participate in the Plan. For more information on the consequences of the Employee's refusal to consent or withdrawal of consent, the Employee understands that he or she may contact the Employee's local Human Resources representative.

26. Notice of Governing Law. This award of Performance Units will be governed by, and construed in accordance with, the laws of the State of California, in the U.S.A., without regard to principles of conflict of laws.

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EXHIBIT 31.1

CERTIFICATION

I, Michael R. Splinter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Materials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2012

/s/ Michael R. Splinter

Michael R. Splinter
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, George S. Davis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Materials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 27, 2012

/s/ George S. Davis

George S. Davis
Executive Vice President, Chief Financial Officer

EXHIBIT 32.1

APPLIED MATERIALS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended January 29, 2012, I, Michael R. Splinter, President and Chief Executive Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Form 10-Q for the period ended January 29, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Form 10-Q for the period ended January 29, 2012 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: February 27, 2012

/s/ Michael R. Splinter

Michael R. Splinter
President and Chief Executive Officer

EXHIBIT 32.2

APPLIED MATERIALS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended January 29, 2012, I, George S. Davis, Executive Vice President, Chief Financial Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Form 10-Q for the period ended January 29, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Form 10-Q for the period ended January 29, 2012 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: February 27, 2012

/s/ George S. Davis

George S. Davis
Executive Vice President, Chief Financial Officer