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 August 1, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 000-06920

Applied Materials, Inc.
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**94-1655526** *(I.R.S. Employer Identification No.)*
3050 Bowers Avenue, **P.O. Box 58039** **Santa Clara, California** *(Address of principal executive offices)*	**95052-8039** *(Zip Code)*

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

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

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

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

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

Number of shares outstanding of the issuer's common stock as of August 1, 2010: 1,336,068,013

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(Unaudited) (In thousands, except per share amounts)			
Net sales	$ 2,517,790	$ 1,133,740	$ 6,662,232	$ 3,487,213
Cost of products sold	1,657,662	808,866	4,164,028	2,615,244
Gross margin	860,128	324,874	2,498,204	871,969
Operating expenses:				
Research, development and engineering	290,398	234,052	865,329	699,927
General and administrative	145,994	88,487	396,572	330,808
Marketing and selling	105,754	79,518	303,369	248,311
Restructuring and asset impairments	135,331	—	248,143	159,481
Total operating expenses	677,477	402,057	1,813,413	1,438,527
Income (loss) from operations	182,651	(77,183)	684,791	(566,558)
Pre-tax loss of equity method investment	—	—	—	34,983
Impairment of equity method investment and strategic investments	7,804	2,341	12,665	79,422
Interest expense	5,496	4,893	15,762	15,945
Interest income	8,480	10,233	27,253	37,257
Income (loss) before income taxes	177,831	(74,184)	683,617	(659,651)
Provision (benefit) for income taxes	54,735	(19,319)	213,766	(216,462)
Net income (loss)	$ 123,096	$ (54,865)	$ 469,851	$ (443,189)
Earnings (loss) per share:				
Basic	$ 0.09	$ (0.04)	$ 0.35	$ (0.33)
Diluted	$ 0.09	$ (0.04)	$ 0.35	$ (0.33)
Weighted average number of shares:				
Basic	1,339,660	1,333,278	1,342,068	1,331,410
Diluted	1,348,808	1,333,278	1,350,587	1,331,410

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS*

	August 1, 2010	October 25, 2009
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,564,337	$ 1,576,381
Short-term investments	783,799	638,349
Accounts receivable, net	1,721,496	1,041,495
Inventories	1,590,052	1,627,457
Deferred income taxes, net	577,442	356,336
Income taxes receivable	—	184,760
Other current assets	314,622	264,169
Total current assets	6,551,748	5,688,947
Long-term investments	1,279,515	1,052,165
Property, plant and equipment, net	983,790	1,090,433
Goodwill	1,336,426	1,170,932
Purchased technology and other intangible assets, net	300,401	306,416
Deferred income taxes and other assets	274,268	265,350
Total assets	$ 10,726,148	$ 9,574,243
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,848	$ 1,240
Accounts payable and accrued expenses	1,643,606	1,061,502
Customer deposits and deferred revenue	1,036,938	864,280
Income taxes payable	207,080	12,435
Total current liabilities	2,889,472	1,939,457
Long-term debt	204,438	200,654
Employee benefits and other liabilities	354,099	339,524
Total liabilities	3,448,009	2,479,635
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock: $.01 par value per share; 2,500,000 shares authorized; 1,336,068 and 1,340,917 shares outstanding at August 1, 2010 and October 25, 2009, respectively	13,361	13,409
Additional paid-in capital	5,368,862	5,195,437
Retained earnings	11,135,753	10,934,004
Treasury stock: 523,791 and 508,254 shares at August 1, 2010 and October 25, 2009, respectively, net	(9,246,407)	(9,046,562)
Accumulated other comprehensive income (loss)	6,570	(1,680)
Total stockholders' equity	7,278,139	7,094,608
Total liabilities and stockholders' equity	$ 10,726,148	$ 9,574,243

* Amounts as of August 1, 2010 are unaudited. Amounts as of October 25, 2009 are derived from the October 25, 2009 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

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

	Common Stock		Additional Paid-In	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Stock	Income (Loss)	Total
	(Unaudited) (In thousands)						
Nine Months Ended August 1, 2010							
Balance at October 25, 2009	1,340,917	$ 13,409	$ 5,195,437	$ 10,934,004	$ (9,046,562)	$ (1,680)	$ 7,094,608
Components of comprehensive income, net of tax:							
Net income	—	—	—	469,851	—	—	469,851
Change in unrealized net gain on investments	—	—	—	—	—	6,876	6,876
Change in unrealized net gain on derivative instruments	—	—	—	—	—	1,359	1,359
Change in defined and postretirement benefit plans liability	—	—	—	—	—	74	74
Translation adjustments	—	—	—	—	—	(59)	(59)
Comprehensive income							478,101
Dividends	—	—	—	(268,102)	—	—	(268,102)
Share-based compensation	—	—	94,772	—	—	—	94,772
Issuance under stock plans, net of a tax detriment of $11,842 and other	10,689	107	78,653	—	—	—	78,760
Common stock repurchases	(15,538)	(155)	—	—	(199,845)	—	(200,000)
Balance at August 1, 2010	1,336,068	$ 13,361	$ 5,368,862	$ 11,135,753	$ (9,246,407)	$ 6,570	$ 7,278,139

See accompanying Notes to Consolidated Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	August 1, 2010	July 26, 2009
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 469,851	$ (443,189)
Adjustments required to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	235,742	219,609
Loss on fixed asset retirements	14,505	16,165
Provision for bad debts	6,718	62,539
Restructuring and asset impairments	248,143	159,481
Deferred income taxes	(214,984)	96,117
Net recognized loss on investments	15,532	13,083
Pre-tax loss of equity method investment	—	34,983
Impairment of investments	12,665	79,422
Share-based compensation	94,772	116,114
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	(648,477)	786,319
Inventories	100,305	238,510
Income taxes receivable	184,760	(296,330)
Other current assets	(37,936)	49,990
Other assets	(6,643)	(7,134)
Accounts payable and accrued expenses	374,037	(632,193)
Customer deposits and deferred revenue	166,799	(314,250)
Income taxes payable	192,054	(122,967)
Employee benefits and other liabilities	(10,109)	36,527
Cash provided by operating activities	1,197,734	92,796
Cash flows from investing activities:		
Capital expenditures	(134,044)	(187,804)
Cash paid for acquisition, net of cash acquired	(322,599)	—
Proceeds from sales and maturities of investments	967,067	1,121,026
Purchases of investments	(1,357,261)	(649,417)
Cash provided by (used in) investing activities	(846,837)	283,805
Cash flows from financing activities:		
Debt repayments, net	(5,684)	(241)
Proceeds from common stock issuances	98,920	29,406
Common stock repurchases	(200,000)	(22,906)
Payment of dividends to stockholders	(255,032)	(239,756)
Cash used in financing activities	(361,796)	(233,497)
Effect of exchange rate changes on cash and cash equivalents	(1,145)	742
Increase (decrease) in cash and cash equivalents	(12,044)	143,846
Cash and cash equivalents — beginning of period	1,576,381	1,411,624
Cash and cash equivalents — end of period	$ 1,564,337	$ 1,555,470
Supplemental cash flow information:		
Cash payments for income taxes	$ 255,109	$ 192,027
Cash refunds of income taxes	$ 199,149	52,402
Cash payments for interest	$ 7,196	$ 7,212

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 25, 2009 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Annual Report on Form 10-K for the fiscal year ended October 25, 2009 (2009 Form 10-K). Applied's results of operations for the three and nine months ended August 1, 2010 are not necessarily indicative of future operating results.

Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2010 contains 53 weeks, while fiscal 2009 contained 52 weeks, and the first nine months of fiscal 2010 contained 40 weeks, while the first nine months of fiscal 2009 contained 39 weeks.

Use of Estimates

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

In the third quarter of fiscal 2010, Applied initiated a plan to restructure its Energy and Environmental Solutions segment. The action was in response to adverse market conditions for thin film solar, including delays in utility-scale solar adoption, solar panel manufacturers' challenges in obtaining affordable capital, changes and uncertainty in government renewable energy policies, and competitive pressure from crystalline silicon (c-Si) solar technologies. Under this plan, Applied incurred charges totaling $405 million, which included inventory-related charges of $247 million related to SunFab thin film solar equipment, asset impairment charges of $110 million, employee severance charges of $45 million, and other costs of $3 million. In addition, during the third quarter of fiscal 2010, Applied revised the cost estimate of a global workforce reduction program, originally announced in November 2009, as a result of changes in business requirements and recorded a favorable adjustment of $20 million.

Revenue Recognition

Applied recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller's price to buyer is fixed or determinable; and collectability is probable. Applied's shipping terms are customarily FOB Applied shipping point or equivalent terms. Applied's revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment, Applied recognizes revenue upon shipment for all products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred, and that revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer technical acceptance; (3) for transactions where legal title does not pass at shipment, revenue is recognized when legal title passes to the customer, which is generally at customer technical acceptance; (4) for arrangements initiated prior to fiscal 2010 containing multiple elements, the revenue relating to the undelivered elements is deferred at their estimated relative fair values until delivery of the deferred elements; and (5) for arrangements initiated or materially modified during fiscal 2010 containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. Applied limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment. In cases where Applied has sold products that have been demonstrated to meet product specifications prior to shipment, Applied believes that at the time of delivery, it has an enforceable claim to amounts recognized as revenue. The completed contract method is used for SunFab™ thin film lines. Certain SunFab thin film contracts have provisions for additional amounts to become due to Applied if the line achieves certain output criteria subsequent to factory acceptance. Any additional amounts earned under these contracts are recognized upon achievement. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

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

For fiscal 2010 and future periods, when a sales arrangement contains multiple elements, such as hardware and services and/or software products, Applied allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Applied generally utilizes the ESP due to the nature of its products. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue, as amended.

Business Combinations

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

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 2 Earnings (Loss) Per Share

Basic earnings (loss) per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, restricted stock units, and employee stock purchase plans shares) outstanding during the period. Applied's net income (loss) has not been adjusted for any period presented for purposes of computing basic or diluted earnings (loss) per share due to the Company's non-complex capital structure. For purposes of computing diluted earnings per share, weighted average potential common shares do not include stock options with an exercise price greater than the average fair market value of Applied common stock for the period as the effect would be anti-dilutive. Potential common shares have not been included in the calculation of diluted net loss per share for the three and nine months ended July 26, 2009 as the effect would be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per share for the three and nine months ended July 26, 2009 are the same.

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(In thousands, except per share amounts)			
Numerator:				
Net income (loss)	$ 123,096	$ (54,865)	$ 469,851	$ (443,189)
Denominator:				
Weighted average common shares outstanding	1,339,660	1,333,278	1,342,068	1,331,410
Effect of dilutive stock options, restricted stock units and employee stock purchase plans shares	9,148	—	8,519	—
Denominator for diluted earnings (loss) per share	1,348,808	1,333,278	1,350,587	1,331,410
Basic earnings (loss) per share	$ 0.09	$ (0.04)	$ 0.35	$ (0.33)
Diluted earnings (loss) per share	$ 0.09	$ (0.04)	$ 0.35	$ (0.33)
Potentially dilutive securities	33,700	91,655	33,844	91,655

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:

August 1, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
Cash	$ 624,590	$ —	$ —	$ 624,590
Cash equivalents:				
Money market funds	873,705	—	—	873,705
U.S. Treasury and agency securities	66,060	—	18	66,042
Total Cash equivalents	939,765	—	18	939,747
Total Cash and Cash equivalents	$ 1,564,355	$ —	$ 18	$ 1,564,337
Short-term and Long-term investments:				
U.S. Treasury and agency securities	$ 839,798	$ 9,598	$ 25	$ 849,371
Obligations of states and political subdivisions	510,072	6,644	5	516,711
U.S. commercial paper, corporate bonds and medium-term notes	365,365	6,082	54	371,393
Other debt securities*	229,891	5,531	346	235,076
Total fixed income securities	1,945,126	27,855	430	1,972,551
Publicly traded equity securities	13,854	14,708	—	28,562
Equity investments in privately-held companies	62,201	—	—	62,201
Total Short-term and Long-term investments	$ 2,021,181	$ 42,563	$ 430	$ 2,063,314
Total Cash, Cash equivalents and Investments	$ 3,585,536	$ 42,563	$ 448	$ 3,627,651

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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

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

Maturities of Investments

The following table summarizes the contractual maturities of Applied's investments at August 1, 2010:

	Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 752,111	$ 755,220
Due after one through five years	959,665	978,408
Due after five years	3,459	3,847
No single maturity date**	305,946	325,839
	$ 2,021,181	$ 2,063,314

** 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 and nine months ended August 1, 2010 and July 26, 2009 were as follows:

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(In thousands)			
Gross realized gains	$1,297	$ 992	$3,185	$ 5,796
Gross realized losses	$ 654	$1,491	$1,323	$10,468

At August 1, 2010, Applied had a gross unrealized loss of $0.4 million due to a decrease in the fair value of certain fixed income securities. Applied regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether an unrealized loss is temporary, or other-than-temporary and therefore impaired, include: the length of time and extent to which fair value has been lower than the cost basis; the financial condition, credit quality and near-term prospects of the investee; and whether it is more likely than not that Applied will be required to sell the security prior to recovery. Generally, the contractual terms of investments in marketable securities do not permit settlement at prices less than the amortized cost of the investments. Applied has determined that the gross unrealized losses on its marketable securities at August 1, 2010 are temporary in nature and therefore it did not recognize any impairment of its marketable securities for the three and nine months ended August 1, 2010. At August 1, 2010, Applied determined that certain of its equity investments in privately-held companies were other-than-temporarily impaired and, accordingly, recognized impairment charges in the amounts of $8 million and $13 million for the three and nine months ended August 1, 2010, respectively. Impairment charges associated with equity investments in privately-held companies for the three months ended July 26, 2009 totaled $2 million. Impairment charges associated with financial assets for the nine months ended July 26, 2009 totaled $79 million, consisting of the following: equity method investment, $45 million; publicly-traded equity securities, $20 million; and equity investments in privately-held companies, $14 million.

The following table provides the fair market value of Applied's investments with unrealized losses that are not deemed to be other-than-temporarily impaired as of August 1, 2010.

	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
U.S. Treasury and agency securities	$ 84,630	$ 38	$ 7,558	$ 5	$ 92,188	$ 43
Obligations of states and political subdivisions	5,667	5	—	—	5,667	5
U.S. commercial paper, corporate bonds and medium-term notes	44,137	54	—	—	44,137	54
Other debt securities	30,817	196	1,641	150	32,458	346
Total	$ 165,251	$ 293	$ 9,199	$ 155	$ 174,450	$ 448

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 — Observable inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Applied's investments are comprised primarily of debt securities that are classified as available-for-sale and recorded at their fair 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 August 1, 2010, substantially all of Applied's available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

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 August 1, 2010 and October 25, 2009:

	August 1, 2010				October 25, 2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In thousands)				(In thousands)			
Assets:								
Money market funds	$ 873,705	$ —	$ —	$ 873,705	$ 1,235,254	$ —	$ —	$ 1,235,254
U.S. Treasury and agency securities	172,781	742,632	—	915,413	145,166	516,304	—	661,470
Obligations of states and political subdivisions	—	516,711	—	516,711	—	427,237	—	427,237
U.S. commercial paper, corporate bonds and medium-term notes	—	371,393	—	371,393	—	387,945	—	387,945
Other debt securities	—	235,076	—	235,076	—	104,232	—	104,232
Publicly traded equity securities	28,562	—	—	28,562	19,011	—	—	19,011
Foreign exchange derivative assets	—	6,167	—	6,167	—	2,173	—	2,173
Total	$ 1,075,048	$ 1,871,979	$ —	$ 2,947,027	$ 1,399,431	$ 1,437,891	$ —	$ 2,837,322
Liabilities:								
Foreign exchange derivative liabilities	$ —	$ (2,191)	$ —	$ (2,191)	$ —	$ (1,678)	$ —	$ (1,678)
Total	$ —	$ (2,191)	$ —	$ (2,191)	$ —	$ (1,678)	$ —	$ (1,678)

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

	Three Months Ended		Nine Months Ended	
	August 1, 2010 Level 3	July 26, 2009 Level 3	August 1, 2010 Level 3	July 26, 2009 Level 3
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Balance, beginning of period	$ —	$ 2,285	$ —	$ 13,100
Total realized and unrealized losses:				
Included in earnings	—	908	—	(1,859)
Included in other comprehensive loss	—	(27)	—	(1,152)
Purchases, sales, and maturities	—	(1,996)	—	(8,991)
Transfers out of Level 3, net	—	438	—	510
Balance, end of period	$ —	$ 1,608	$ —	$ 1,608

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 $62 million at August 1, 2010, of which $39 million of investments were accounted for under the cost method of accounting and $23 million of investments had been measured at fair value on a non-recurring basis due to an other-than-temporary decline in value. At July 26, 2009, equity investments in privately-held companies totaled $90 million, of which $48 million of investments were accounted for under the cost method of accounting and $42 million of investments had been measured at fair value on a non-recurring basis due to an other-than-temporary decline in value.

The following tables present the balances of equity securities at August 1, 2010 and July 26, 2009 that had been measured at fair value on a non-recurring basis, using the process described above, and the impairment charges recorded during the three and nine months then ended:

				Impairment of Equity Investments in Privately-Held Companies	
	Level 1	Level 2	Level 3	Three Months Ended August 1, 2010	Nine Months Ended August 1, 2010
	(In thousands)				
Equity investments in privately-held companies measured at fair value on a non-recurring basis during fiscal 2010	$—	$—	$22,970	$7,804	$12,665

				Impairment of Equity Investments in Privately-Held Companies	
	Level 1	Level 2	Level 3	Three Months Ended July 26, 2009	Nine Months Ended July 26, 2009
	(In thousands)				
Equity investments in privately-held companies measured at fair value on a non-recurring basis during fiscal 2009	$—	$—	$42,110	$2,341	$14,402

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 August 1, 2010, the carrying amount of long-term debt was $206 million and the estimated fair value was $240 million. At October 25, 2009, the carrying amount of long-term debt was $202 million and the estimated fair value was $216 million. The estimated fair value of long-term debt is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as Japanese yen, euro, Israeli shekel and Swiss franc. 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 August 1, 2010 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Both ineffective hedge amounts and hedge components excluded from the assessment of effectiveness are recognized promptly in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three and nine months ended August 1, 2010. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three months ended July 26, 2009 and was $25 million for the nine months ended July 26, 2009.

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.

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Fair values of derivative instruments were as follows:

	Balance Sheet Location	Asset Derivatives August 1, 2010	Asset Derivatives October 25, 2009	Balance Sheet Location	Liability Derivatives August 1, 2010	Liability Derivatives October 25, 2009
Derivatives Designated as Hedging Instruments						
Foreign exchange contracts	Other current assets	$ 4,512	$ 1,811	Accounts payable and accrued expenses	$ 1,821	$ 1,225
Derivatives Not Designated as Hedging Instruments						
Foreign exchange contracts	Other current assets	$ 1,655	$ 362	Accounts payable and accrued expenses	$ 370	$ 453
Total derivatives		$ 6,167	$ 2,173		$ 2,191	$ 1,678

The effect of derivative instruments on the Consolidated Condensed Statement of Operations for the three months and nine months ended August 1, 2010 and July 26, 2009 was as follows:

	Location of Gain or (Loss) Reclassified from AOCI into Income or Recognized in Income	Three Months Ended August 1, 2010 — Effective Portion: Gain or (Loss) Recognized in AOCI	Three Months Ended August 1, 2010 — Effective Portion: Gain or (Loss) Reclassified from AOCI into Income	Three Months Ended August 1, 2010 — Ineffective Portion and Amount Excluded from Effectiveness Testing: Gain or (Loss) Recognized in Income	Three Months Ended July 26, 2009 — Effective Portion: Gain or (Loss) Recognized in AOCI	Three Months Ended July 26, 2009 — Effective Portion: Gain or (Loss) Reclassified from AOCI into Income	Three Months Ended July 26, 2009 — Ineffective Portion and Amount Excluded from Effectiveness Testing: Gain or (Loss) Recognized in Income
			(In thousands)			(In thousands)	
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$ (3,259)	$ (1,321)	$ (1,386)	$ 3,522	$ (52)	$ (303)
Foreign exchange contracts	General and administrative	—	(3,179)	(372)	—	2,859	(203)
Foreign exchange contracts	Research, development and engineering	—	(82)	—	—	(82)	—
Total		$ (3,259)	$ (4,582)	$ (1,758)	$ 3,522	$ 2,725	$ (506)

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

	Location of Gain or (Loss) Reclassified from AOCI into Income or Recognized in Income	Nine Months Ended August 1, 2010 — Effective Portion: Gain or (Loss) Recognized in AOCI	Nine Months Ended August 1, 2010 — Effective Portion: Gain or (Loss) Reclassified from AOCI into Income	Nine Months Ended August 1, 2010 — Ineffective Portion and Amount Excluded from Effectiveness Testing: Gain or (Loss) Recognized in Income	Nine Months Ended July 26, 2009 — Effective Portion: Gain or (Loss) Recognized in AOCI	Nine Months Ended July 26, 2009 — Effective Portion: Gain or (Loss) Reclassified from AOCI into Income	Nine Months Ended July 26, 2009 — Ineffective Portion and Amount Excluded from Effectiveness Testing: Gain or (Loss) Recognized in Income
		(In thousands)			(In thousands)		
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$ (4,866)	$ (2,488)	$ (1,685)	$ (4,598)	$ (8,953)	$ (3,161)
Foreign exchange contracts	General and administrative	—	(4,266)	(1,316)	—	(9,345)	24,039
Foreign exchange contracts	Research, development and engineering	—	(245)	—	—	(245)	—
Total		$ (4,866)	$ (6,999)	$ (3,001)	$ (4,598)	$ (18,543)	$ 20,878

	Location of Gain or (Loss) Recognized in Income	Three Months Ended August 1, 2010	Three Months Ended July 26, 2009	Nine Months Ended August 1, 2010	Nine Months Ended July 26, 2009
		Amount of Gain or (Loss) Recognized in Income (In thousands)		Amount of Gain or (Loss) Recognized in Income (In thousands)	
Derivatives Not Designated as Hedging Instruments					
Foreign exchange contracts	General and administrative	$ (8,395)	$ (1,518)	$ (12,075)	$ (11,410)
Total		$ (8,395)	$ (1,518)	$ (12,075)	$ (11,410)

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 August 1, 2010.

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

Note 6 Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable and discount promissory notes from selected customers. Applied also discounts letters of credit through various financial institutions. Applied sells its accounts receivable without recourse. Details of discounted letters of credit, factored accounts receivable and discounted promissory notes for the three and nine months ended August 1, 2010 and July 26, 2009 were as follows:

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(In thousands)			
Discounted letters of credit	$ 80,886	$ 99,407	$ 134,148	$ 152,107
Factored accounts receivable	54,939	1,620	103,630	23,504
Discounted promissory notes	862	597	1,959	2,913
Total	$ 136,687	$ 101,624	$ 239,737	$ 178,524

Financing charges on the sale of receivables and discounting of letters of credit are included in interest expense in the accompanying Consolidated Condensed Statements of Operations and were not material for all periods presented.

Accounts receivable are presented net of allowance for doubtful accounts of $74 million at August 1, 2010 and $67 million at October 25, 2009. Applied sells principally to manufacturers within the semiconductor, display and solar industries. As a result of challenging economic and industry conditions, certain of these manufacturers may experience difficulties in meeting their obligations in a timely manner. While Applied believes that its allowance for doubtful accounts is adequate and represents Applied’s best estimate at August 1, 2010, 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

	August 1, 2010	October 25, 2009
	(In thousands)	
Inventories		
Customer service spares	$ 326,308	$ 263,688
Raw materials	222,474	351,824
Work-in-process	603,588	667,484
Finished goods	437,682	344,461
	$ 1,590,052	$ 1,627,457

Inventories are stated at the lower of cost or market, with cost determined on a FIFO basis. Included in finished goods inventory is $171 million at August 1, 2010, and $133 million at October 25, 2009, of newly-introduced systems at customer locations where the sales transaction did not meet Applied’s revenue recognition criteria as set forth in Note 1.

Applied adjusts inventory carrying value for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Applied fully reserves for inventories and noncancelable purchase orders for inventory deemed obsolete. Applied performs periodic reviews of inventory items to identify excess inventories on hand by comparing on-hand balances to anticipated usage using recent historical activity as well as anticipated or forecasted demand. If estimates of customer demand diminish further or market conditions become less favorable than those projected by Applied, additional inventory adjustments may be required. During the first nine months of fiscal 2010, Applied incurred inventory-related charges, including $330 million associated with SunFab thin film solar equipment.

	August 1, 2010	October 25, 2009
	(In thousands)	
Property, Plant and Equipment, Net		
Land and improvements	$ 227,144	$ 228,057
Buildings and improvements	1,233,091	1,164,384
Demonstration and manufacturing equipment	665,181	654,779
Furniture, fixtures and other equipment	722,065	713,505
Construction in progress	18,058	146,232
Gross property, plant and equipment	2,865,539	2,906,957
Accumulated depreciation	(1,881,749)	(1,816,524)
	$ 983,790	$ 1,090,433
Accounts Payable and Accrued Expenses		
Accounts payable	$ 628,326	$ 477,148
Compensation and employee benefits	321,994	134,949
Warranty	147,200	117,537
Dividends payable	93,525	80,455
Other accrued taxes	94,792	36,954
Restructuring reserve	112,425	31,581
Other	245,344	182,878
	$ 1,643,606	$ 1,061,502
Customer Deposits and Deferred Revenue		
Customer deposits	$ 602,283	$ 564,412
Deferred revenue	434,655	299,868
	$ 1,036,938	$ 864,280

During the first nine months of fiscal 2010, Applied incurred asset impairment charges of $119 million primarily related to the restructuring of its Energy and Environmental Solutions segment. As of August 1, 2010, other accrued expenses included $42 million in contractual termination obligation charges.

Note 8 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

Applied’s methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Applied assigns assets acquired (including goodwill) and liabilities assumed to 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. For goodwill, Applied performs a two-step impairment test. In the first step, Applied compares the estimated fair value of each reporting unit to its carrying value. Applied's reporting units are consistent with the reportable segments identified in Note 15, based on the manner in which Applied operates its business and the nature of those operations. Applied determines the fair value of each of its reporting units based on a weighting of income and market approaches. Under the income approach, Applied calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Estimated future cash flows will be impacted by a number of factors including anticipated future operating results, estimated cost of capital and/or discount rates. Under the market approach, Applied estimates the fair value based on market multiples of revenue or earnings for comparable companies, 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 equal to the difference.

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

Applied utilized the discounted cash flow method of the income approach to estimate the fair value of the Energy and Environmental Solutions reporting unit. Although considered, the market approach was not used as comparable enterprises, market-based growth rates, and gross margins were determined not to be representative of the Energy and Environmental Solutions reporting unit. For the second quarter of fiscal 2010, while the results of the first step of the impairment test indicated that goodwill and intangible assets within the Energy and Environmental Solutions reporting unit were not impaired, the estimated fair value in excess of carrying value had declined from the fourth quarter of fiscal 2009 to the end of the second quarter of fiscal 2010 to approximately $200 million (or 19 percent over the carrying value of the reporting unit). For the third quarter of fiscal 2010, the results of the first step of the impairment test indicated that goodwill and intangible assets within the Energy and Environmental Solutions reporting unit were not impaired and that the estimated fair value in excess of carrying value had increased from the fourth quarter of fiscal 2009 to the end of the third quarter of fiscal 2010 to approximately $1.3 billion (or 165 percent over the carrying value of the reporting unit). The estimates used in the impairment testing were consistent with the discrete forecasts that Applied uses to manage its business, and considered the significant developments that occurred during the quarter. Cash flows beyond the discrete forecasts were estimated using a terminal value rate, which considered the long-term earnings growth rate specific to the Energy and Environmental Solutions reporting unit. The change in the estimated fair value in excess of the carrying value from the second fiscal quarter was due primarily to changes in the business mix of forecasted future operating results and a reduction in the carrying value of the reporting unit. The reduction in the carrying value of the reporting unit was due to inventory-related charges and asset impairments recognized during the third fiscal quarter. The estimated future cash flows were discounted to present value using a discount rate that was the value-weighted average of Applied's estimated cost of equity and debt derived using both known and estimated market metrics, and was adjusted to reflect risk factors that considered both the timing and risks associated with the estimated cash flows. In the event of future adverse business conditions in the market in which the Energy and Environmental Solutions reporting unit operates, Applied will reassess and update its forecasts and estimates used in a future impairment analysis. If the results of this analysis are lower than current estimates, a material impairment charge may result at that time.

Details of indefinite-lived intangible assets were as follows:

	August 1, 2010			October 25, 2009		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In thousands)					
Silicon Systems Group	$ 381,305	$ —	$ 381,305	$ 223,584	$ —	$ 223,584
Applied Global Services	177,184	17,400	194,584	177,184	17,860	195,044
Display	115,908	—	115,908	115,908	—	115,908
Energy and Environmental Solutions	662,029	—	662,029	654,256	—	654,256
Carrying amount	$ 1,336,426	$ 17,400	$ 1,353,826	$ 1,170,932	$ 17,860	$ 1,188,792

From October 25, 2009 to August 1, 2010, goodwill increased by $158 million due to the acquisition of Semitool, Inc. (Semitool), and by $7 million due to an asset purchase from Advent Solar, Inc. (Advent Solar), both during the first quarter of fiscal 2010 (see Note 16). Other intangible assets that are not subject to amortization consist primarily of a trade name.

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.

Details of amortized intangible assets were as follows:

	August 1, 2010			October 25, 2009		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
			(In thousands)			
Silicon Systems Group	$ 310,259	$ 19,800	$ 330,059	$ 244,558	$ —	$ 244,558
Applied Global Services	32,089	60,564	92,653	39,729	60,564	100,293
Display	109,828	33,500	143,328	109,828	33,500	143,328
Energy and Environmental Solutions	105,305	231,667	336,972	160,805	235,565	396,370
Gross carrying amount	$ 557,481	$ 345,531	$ 903,012	$ 554,920	$ 329,629	$ 884,549
Silicon Systems Group	$ (244,651)	$ (4,984)	$ (249,635)	$ (238,628)	$ —	$ (238,628)
Applied Global Services	(17,944)	(42,142)	(60,086)	(19,974)	(38,635)	(58,609)
Display	(95,160)	(21,667)	(116,827)	(91,364)	(19,602)	(110,966)
Energy and Environmental Solutions	(33,833)	(159,630)	(193,463)	(50,127)	(137,663)	(187,790)
Accumulated amortization	$ (391,588)	$ (228,423)	$ (620,011)	$ (400,093)	$ (195,900)	$ (595,993)
Carrying amount	$ 165,893	$ 117,108	$ 283,001	$ 154,827	$ 133,729	$ 288,556

From October 25, 2009 to August 1, 2010, the change in gross carrying amount of the amortized intangible assets was approximately $18 million, primarily due the acquisition of Semitool during the first quarter of fiscal 2010, offset by impairment of intangible assets in connection with restructuring of the Energy and Environmental Solutions segment in the third quarter of fiscal 2010. Aggregate amortization expense was $17 million and $22 million for the three months ended August 1, 2010 and July 26, 2009, respectively, and $71 million and $67 million for the nine months ended August 1, 2010 and July 26, 2009, respectively.

As of August 1, 2010, future estimated amortization expense is expected to be as follows:

	Amortization Expense
	(In thousands)
2010	$ 13,712
2011	52,673
2012	51,342
2013	48,633
2014	40,986
Thereafter	75,655
	$ 283,001

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Note 9 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three and nine months ended August 1, 2010 and July 26, 2009 were as follows:

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(In thousands)			
Beginning balance	$ 140,369	$ 131,871	$ 117,537	$ 142,846
Provisions for warranty	36,665	19,052	102,611	64,771
Consumption of reserves	(29,834)	(32,421)	(72,948)	(89,115)
Ending balance	$ 147,200	$ 118,502	$ 147,200	$ 118,502

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

Guarantees

During the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by either Applied or its subsidiaries. As of August 1, 2010, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was $50 million. Applied has not recorded any liability in connection with these guarantee arrangements beyond that required to account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

Applied also has agreements with various global banks to facilitate subsidiary banking operations world-wide, including overdraft arrangements, bank guarantees and letters of credit. As of August 1, 2010, Applied Materials, Inc. has provided parent guarantees to banks for approximately $175 million to cover these arrangements.

Legal matters

Semitool Shareholder Litigation

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

On December 14, 2009, all parties in these cases reached an agreement in principle to settle the matters and the plaintiffs withdrew their motion to enjoin consummation of the transaction. Without admitting any wrongdoing or fault, Semitool disclosed certain additional information in its Schedule 14D-9 filed with the Securities and

Exchange Commission on December 14, 2009. Following the tender of shares representing over 95 percent of the outstanding shares of Semitool common stock, the merger of Semitool into Applied's acquisition subsidiary was completed on December 21, 2009. Pursuant to a memorandum of understanding between the parties, plaintiffs conducted discovery to confirm the fairness and reasonableness of the settlement and defendants agreed not to object to an application by plaintiffs' counsel for an award of attorneys' fees and expenses in an amount up to $200,000. A class of Semitool's public shareholders is expected to be certified solely for purposes of settlement, which, if approved by the Court, will result in a complete and final discharge of all claims on behalf of the class.

Jusung

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

In 2004, Applied filed a complaint for patent infringement against Jusung in the Hsinchu District Court in Taiwan seeking damages and a permanent injunction for infringement of a patent related to chemical vapor deposition (CVD) equipment, and this case remains pending. Jusung Pacific unsuccessfully sought invalidation of Applied's CVD patent in the Taiwanese Intellectual Property Office (TIPO). Jusung Pacific's initial appeal of the TIPO's decision was denied, and it has filed a further appeal to the Taipei High Supreme Administrative Court. In 2009, Jusung filed a second action with the TIPO seeking invalidation of Applied's CVD patent which remains pending.

In 2006, Applied filed an action in the TIPO challenging the validity of a patent owned by Jusung Engineering related to severability of the transfer chamber on a CVD tool. Jusung Engineering sued Applied and AKT America in Hsinchu District Court in Taiwan alleging infringement of the same patent and this action is pending. The TIPO granted Applied's request for invalidation and revoked Jusung Engineering's patent. In March 2009, the Hsinchu District Court dismissed Jusung Engineering's lawsuit, and in April 2009, the Ministry of Economic Affairs overruled Jusung Engineering's administrative appeal of the decision revoking its patent. On January 7, 2010, the Taiwan Intellectual Property Court granted Jusung's appeal of the decision revoking its patent and remanded the matter to the TIPO for reconsideration of validity. In November 2009, Applied filed an action in China with the Patent Reexamination Board of the State Intellectual Property Office seeking to invalidate this patent. On June 18, 2010, the Patent Reexamination Board issued a decision invalidating Jusung's patent in China.

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

Korea Criminal Proceedings

In February 2010, the Seoul Prosecutor's Office for the Eastern District of Korea (the Prosecutor's Office) indicted employees of several companies for the alleged improper receipt and use of confidential information belonging to a major Applied customer based in Korea. The Prosecutor's Office did not name Applied or any of its subsidiaries as a party to the criminal action. The individuals charged included the former head of Applied Materials Korea (AMK), who at the time of the indictment was a vice president of Applied Materials, Inc., and certain other

AMK employees. Hearings on these matters are ongoing in the Seoul Eastern District Court. Applied is investigating the allegations and underlying circumstances. Applied is also discussing these matters and potential consequences with the major customer. There is a risk that these matters may lead to other claims. Applied currently is unable to determine what impact these matters may have on Applied's business. The magnitude of the impact on Applied's business will depend on many factors, including the outcome of the proceedings and Applied's customer relationships.

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.

Note 10 Restructuring and Asset Impairments

On July 21, 2010, Applied announced a plan to restructure its Energy and Environmental Solutions segment. The action, which is expected to impact between 400 to 500 positions globally, was in response to adverse market conditions for thin film solar, including delays in utility-scale solar adoption, solar panel manufacturers' challenges in obtaining affordable capital, changes and uncertainty in government renewable energy polices, and competitive pressure from c-Si solar technologies. During the third quarter of fiscal 2010, Applied recorded charges related to this plan totaling $405 million, which included inventory-related charges of $247 million related to SunFab thin film solar equipment, asset impairment charges of $110 million, employee severance charges of $45 million, and other costs of $3 million.

	Severance (In thousands)
Provision for restructuring reserves	$ 45,075

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 first quarter of fiscal 2010, Applied recorded restructuring charges of $104 million associated with this program. During the third quarter of fiscal 2010, as a result of changes in business requirements, Applied revised its global workforce reduction to approximately 1,000 positions and recorded a favorable adjustment of $20 million.

Changes in restructuring reserves related to the program described above for the nine months ended August 1, 2010 were as follows:

	Severance (In thousands)
Provision for restructuring reserves	$ 103,780
Consumption of reserves	(16,688)
Balance, January 31, 2010	87,092
Consumption of reserves	(6,710)
Balance, May 2, 2010	80,382
Consumption of reserves	(4,728)
Adjustment of restructuring reserves	(20,000)
Balance, August 1, 2010	$ 55,654

Changes in restructuring reserves for the nine months ended August 1, 2010 related to other restructuring plans and facilities realignment programs initiated in prior periods were as follows:

	Severance	Facilities (In thousands)	Total
Balance, October 25, 2009	$ 26,353	$ 5,228	$ 31,581
Provision for restructuring reserves	—	64	64
Consumption of reserves	(11,915)	(227)	(12,142)
Foreign currency changes	—	3	3
Balance, January 31, 2010	14,438	5,068	19,506
Provision for restructuring reserves	—	57	57
Consumption of reserves	(6,167)	(29)	(6,196)
Adjustment of restructuring reserves	2	(160)	(158)
Foreign currency changes	—	(1)	(1)
Balance, May 2, 2010	8,273	4,935	13,208
Provision for restructuring reserves	—	57	57
Consumption of reserves	(1,532)	(37)	(1,569)
Balance, August 1, 2010	$ 6,741	$ 4,955	$ 11,696

During the third quarter of fiscal 2010, Applied recorded asset impairment charges of $110 million related to the restructuring of its Energy and Environmental Solutions segment. During the second quarter of fiscal 2010, Applied recorded an asset impairment charge of $9 million to write down a facility to its estimated fair value based on prices for comparable local properties. The facility was reclassified as an asset held for sale within other current assets.

Note 11 Stockholders' Equity, Comprehensive Income and Share-Based Compensation

Comprehensive Income

Components of comprehensive income (loss), on an after-tax basis where applicable, were as follows:

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(In thousands)			
Net income (loss)	$ 123,096	$ (54,865)	$ 469,851	$ (443,189)
Pension liability adjustment	—	—	74	112
Change in unrealized net gain on investments	4,863	7,958	6,876	39,294
Change in unrealized net gain (loss) on derivative instruments qualifying as cash flow hedges	844	508	1,359	(7,795)
Foreign currency translation adjustments	1,566	810	(59)	707
Comprehensive income (loss)	$ 130,369	$ (45,589)	$ 478,101	$ (410,871)

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

	August 1, 2010	October 25, 2009
	(In thousands)	
Pension liability and post retirement benefits	$ (32,075)	$ (32,149)
Unrealized gain on investments net	26,848	19,972
Unrealized gain on derivative instruments qualifying as cash flow hedges	1,669	310
Cumulative translation adjustments	10,128	10,187
	$ 6,570	$ (1,680)

Stock Repurchase Program

On March 8, 2010, Applied's Board of Directors approved a new stock repurchase program authorizing up to $2 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. During the three months ended August 1, 2010, Applied repurchased 7,907,000 shares of its common stock at an average price of $12.65 per share for a total cash outlay of $100 million. During the nine months ended August 1, 2010, Applied repurchased 15,537,000 shares of its common stock at an average price of $12.87 per share for a total cash outlay of $200 million. Applied did not repurchase any shares of its common stock during the three months ended July 26, 2009. During the nine months ended July 26, 2009, Applied repurchased 1,942,000 shares of its common stock at an average price of $11.80 per share for a total cash outlay of $23 million.

Dividends

On June 9, 2010, Applied's Board of Directors approved a quarterly cash dividend in the amount of $0.07 per share, payable on September 15, 2010 to stockholders of record as of August 25, 2010. On June 16, 2010, Applied paid a quarterly cash dividend of $0.07 per share to stockholders of record as of May 26, 2010. In December 2009, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.06 per share that was paid on March 17, 2010 to stockholders of record as of February 24, 2010. 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 interest of Applied's stockholders.

Share-Based Compensation

Applied has adopted stock plans that permit grants to employees of share-based awards, including stock options, restricted stock and restricted stock units (also referred to as "performance shares" under Applied's principal equity compensation plan, the Employee Stock Incentive Plan). 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 equity-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.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

During the three and nine months ended August 1, 2010 and July 26, 2009, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock units and restricted stock. Total share-based compensation and related tax benefits were as follows:

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(In thousands)		(In thousands)	
Share-based compensation	$32,442	$43,334	$94,772	$116,114
Tax benefit recognized	$ 9,732	$12,133	$27,758	$ 32,512

The cost associated with equity 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 achievement of performance goals.

At August 1, 2010, Applied had $197 million in total unrecognized compensation expense, net of estimated forfeitures, related to stock option, restricted stock unit and restricted stock grants, which will be recognized over a weighted average period of 1.4 years.

Stock Options

The exercise price of each stock option equals the fair market value of Applied common stock on the date of grant. Most options are scheduled to vest over four years, subject to the grantee's continued service with Applied, and expire no later than seven years from the grant date. The fair value of each option 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. The weighted average assumptions used in the model are outlined in the following table:

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
Stock Options:				
Dividend yield	—	2.25%	—	2.80%
Expected volatility	—	46%	—	50%
Risk-free interest rate	—	1.3%	—	1.3%
Expected life (in years)	—	3.0	—	3.0

The computation of the expected volatility assumption used in the Black-Scholes calculations for new grants is based on a combination of historical and implied volatilities. When establishing the expected life assumption, Applied periodically reviews historical employee exercise behavior with respect to option grants.

There were no stock options granted in the three and nine months ended August 1, 2010. The weighted average grant date fair value of options granted during the three and nine months ended July 26, 2009 was $2.99 and $2.52, respectively.

Stock option activity for the nine months ended August 1, 2010 was as follows:

	Shares	Weighted Average Exercise Price
	(In thousands, except per share amounts)	
Outstanding at October 25, 2009	73,101	$ 14.72
Granted	—	$ —
Exercised	(6,730)	$ 11.02
Canceled/forfeited	(13,213)	$ 15.22
Outstanding at August 1, 2010	53,158	$ 15.12
Exercisable at August 1, 2010	39,264	$ 17.42

Restricted Stock Units and Restricted Stock

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. Restricted stock units and awards of restricted stock typically vest over three to four years. Vesting of restricted stock units and restricted stock 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 these 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. Beginning in fiscal 2007, Applied initiated a performance-based equity award program for named executive officers and other key employees. Awards of restricted stock units or restricted stock granted under this program vest only if specific performance goals set by the Human Resources and Compensation Committee of Applied's Board of Directors (the Committee) are achieved and if the grantee remains employed by Applied through the applicable vesting date. The performance goals require the achievement of targeted relative annual operating profit margin levels as compared to Applied's peer companies in at least one of the four fiscal years beginning with the fiscal year of the grant. The fair value of these performance-based awards is estimated using the fair market value of Applied common stock on the date of the grant and assumes that the specified performance goals will be achieved. If achieved, these awards vest over a specified remaining service period. 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. The Committee approved the grant of 1,825,000 performance-based restricted stock units and 50,000 performance-based shares of restricted stock under this program in the nine months ended August 1, 2010. There were no performance-based awards granted in the nine months ended July 26, 2009. With respect to the performance-based awards granted in fiscal 2008, as of August 1, 2010, 70 percent of the performance goals associated with these awards had been achieved. The performance goals associated with the remaining 30 percent may still be achieved during fiscal 2010 and fiscal 2011.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Restricted stock unit and restricted stock activity for the nine months ended August 1, 2010 was as follows:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
	(In thousands)		
Non-vested restricted stock units and restricted stock at October 25, 2009	12,105	$ 16.16	2.4 Years
Granted	12,216	$ 12.42	
Vested	(2,275)	$ 15.45	
Canceled	(1,503)	$ 15.68	
Non-vested restricted stock units and restricted stock at August 1, 2010	20,543	$ 14.05	2.7 Years

Employee Stock Purchase Plans

Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning or end of each 6-month purchase period, subject to certain limits. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was $3.00 and $2.99 for the nine months ended August 1, 2010 and July 26, 2009, respectively. No shares were issued under the ESPP during the three months ended August 1, 2010 and July 26, 2009, respectively. The number of shares issued under the ESPP during the nine months ended August 1, 2010 and July 26, 2009 was 2,440,000 and 3,536,000, respectively. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. Underlying assumptions used in the model are outlined in the following table:

	Nine Months Ended	
	August 1, 2010	July 26, 2009
ESPP:		
Dividend yield	2.24%	2.71%
Expected volatility	33%	69%
Risk-free interest rate	0.18%	0.41%
Expected life (in years)	0.5	0.5

Note 12 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 health benefits to eligible retirees. A summary of the components of net periodic benefit costs of these defined and postretirement benefit plans for the three and nine months ended August 1, 2010 and July 26, 2009 is presented below:

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(In thousands)		(In thousands)	
Service cost	$ 3,350	$ 3,290	$ 10,050	$ 9,870
Interest cost	3,444	3,007	10,332	9,021
Expected return on plan assets	(1,913)	(1,863)	(5,739)	(5,589)
Amortization of actuarial loss	286	174	858	522
Amortization of prior service credit	(63)	(70)	(189)	(210)
Amortization of transition obligation	14	19	42	57
Net periodic pension cost	$ 5,118	$ 4,557	$ 15,354	$ 13,671

Note 13 Borrowing Facilities

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.1 billion, of which $1.0 billion is comprised of a 5-year revolving credit agreement with a group of banks that is scheduled to expire in January 2012. 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 August 1, 2010. Remaining credit facilities in the amount of approximately $91 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 August 1, 2010.

Note 14 Income Taxes

Applied's effective income tax rate for the third quarter of fiscal 2010 was a provision of 30.8 percent, and the income tax rate for the third quarter of fiscal 2009 was a benefit of 26.0 percent. Both periods included the impact of restructuring charges. 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.

During the second quarter of fiscal 2010, Applied received a U.S. federal cash refund of approximately $130 million due to the carryback of the fiscal year 2009 net operating loss to fiscal year 2005.

During fiscal 2009, the Internal Revenue Service began an examination of Applied's federal income tax returns for fiscal years 2007 and 2006. Applied believes it has adequately reserved for any income tax uncertainties that may arise as a result of this examination.

A number of Applied's tax returns remain subject to examination by taxing authorities. These include U.S. federal returns for fiscal 2005 and later years, California returns for fiscal 2006 and later years, tax returns for certain other states for fiscal 2002 and later years, and tax returns in certain jurisdictions outside of the United States for fiscal 2003 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 part of the settlement process, is highly uncertain. This could cause large fluctuations in the balance sheet classification of current assets and non-current assets and liabilities. Applied does not expect a material change in unrecognized tax benefits in the next 12 months.

Note 15 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 August 1, 2010 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the Company'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. Effective in the first quarter of fiscal 2010, Applied changed its methodology for allocating certain expenses to its reportable segments, such as components of variable compensation and operating expenses associated with the global sales organization. Applied has reclassified segment operating results for the three and nine months ended July 26, 2009 to conform to the fiscal 2010 presentation. 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 corporate functions (certain management, finance, legal, human resources, and research, development and engineering), 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 according to how a particular reportable segment's management is measured. Management does not consider the unallocated costs in measuring the performance of the reportable segments.

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

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, and remanufactured equipment. 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 and nine months ended August 1, 2010 and July 26, 2009 were as follows:

	Three Months Ended		Nine Months Ended	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
	(In thousands)		(In thousands)	
2010:				
Silicon Systems Group	$ 1,446,740	$ 524,752	$ 3,821,179	$ 1,328,426
Applied Global Services	467,539	84,426	1,348,857	237,164
Display	216,139	63,632	617,749	178,426
Energy and Environmental Solutions	387,372	(371,213)	874,447	(552,430)
Total Segment	$ 2,517,790	$ 301,597	$ 6,662,232	$ 1,191,586
2009:				
Silicon Systems Group	$ 497,679	$ 67,198	$ 1,303,921	$ 31,076
Applied Global Services	342,427	24,156	1,006,836	48,936
Display	69,161	(7,875)	301,696	10,508
Energy and Environmental Solutions	224,473	(51,854)	874,760	(206,088)
Total Segment	$ 1,133,740	$ 31,625	$ 3,487,213	$ (115,568)

Reconciliations of total segment operating income to Applied's consolidated operating income (loss) for the three and nine months ended August 1, 2010 and July 26, 2009 were as follows:

	Three Months Ended		Nine Months Ended	
	August 1, 2010	July 26, 2009	August 1, 2010	July 26, 2009
	(In thousands)		(In thousands)	
Total segment operating income (loss)	$ 301,597	$ 31,625	$ 1,191,586	$ (115,568)
Corporate and unallocated costs	(138,889)	(108,808)	(413,926)	(291,509)
Unallocated restructuring and asset impairment benefit (charge)	19,943	—	(92,869)	(159,481)
Income (loss) from operations	$ 182,651	$ (77,183)	$ 684,791	$ (566,558)

During the nine months ended August 1, 2010, Samsung Electronics Co., Ltd. accounted for 16 percent of Applied's net sales and Taiwan Semiconductor Manufacturing Company Limited accounted for 12 percent. These two customers accounted for 22 percent of the accounts receivable balance as of August 1, 2010.

Note 16 Business Combinations

On December 21, 2009, Applied acquired Semitool, a public company based in the state of Montana, for a purchase price of $323 million in cash, net of cash acquired, pursuant to a tender offer and subsequent short-form merger. The acquired business is a leading supplier of electrochemical plating and wafer surface preparation equipment used by semiconductor packaging and manufacturing companies globally. Applied's primary reasons for this acquisition were to complement its existing product offerings and to provide opportunities for future growth. The acquired business is included in results for the Silicon Systems Group segment.

In November 2009, Applied acquired substantially all the assets, including the intellectual property, of Advent Solar, a developer of advanced technology for c-Si solar photovoltaic cells and modules (PVs). This acquisition complemented Applied's portfolio of solar PV technologies and enhanced Applied's opportunities in the c-Si equipment market. The acquisition is included in results for the Energy and Environmental Solutions segment.

Applied allocated the purchase price of each of these acquisitions to tangible assets, liabilities and identifiable intangible assets acquired, based on their estimated fair values. The excess of purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management. These estimates were determined through established and generally accepted calculation techniques. Applied calculated the fair value of the tangible and intangible assets acquired to allocate the purchase prices at the respective acquisition dates. Based upon these calculations, the purchase prices for the above acquisitions were allocated as follows:

Fair Market Values	Acquisitions 2010 (In thousands)
Cash and cash equivalents	$ 38,744
Accounts receivable, net	37,961
Inventories	61,838
Other current assets	3,837
Property and equipment, net	45,578
Goodwill	165,495
Purchased intangible assets	93,376
Total assets acquired	446,829
Accounts payable and accrued expenses	(46,246)
Other liabilities	(25,240)
Total liabilities assumed	(71,486)
Purchase price allocated	$ 375,343

	Useful Life (In years)	Purchased Intangible Assets 2010 (In thousands)
Developed technology	6-10	$ 65,700
Customer relationships	8	10,900
Trade names	3-10	5,700
Patents and trademarks	7-10	5,462
Backlog	1	4,100
Other	5	1,514
Total purchased intangible assets		$ 93,376

Note 17 Recent Accounting Pronouncements

In March 2010, the FASB issued updated authoritative guidance that amends the requirements for evaluating whether a decision maker or service provider has a variable interest entity and clarified that a quantitative approach should not be the sole consideration in assessing the criteria for variable interest entity determination. The guidance also clarifies that related parties should be considered in applying all of the decision maker and service provider criteria. This is in addition to the authoritative guidance the FASB issued in June 2009 that applies to determining whether an entity is a variable interest entity and requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Under this guidance, an enterprise has a controlling financial interest when it has (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The guidance also requires an enterprise to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. The guidance also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity, requires enhanced disclosures, and eliminates the scope exclusion for qualifying special-purpose entities. This guidance is effective for Applied beginning in the first quarter of fiscal 2011. Applied is evaluating the potential impact of the implementation of this authoritative guidance on its consolidated financial statements.

In January 2010, the FASB issued authoritative guidance for fair value measurements, which requires additional disclosures and clarifications to existing disclosures. This authoritative guidance requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and also to describe the reasons for these transfers. This authoritative guidance also requires enhanced disclosure of activity in Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures for Level 1 and Level 2 fair value measurements became effective for Applied in the second quarter of fiscal 2010. Disclosures regarding activity within Level 3 fair value measurements becomes effective the first interim reporting period after December 15, 2010 and will be effective for Applied in the second quarter of fiscal 2011. Applied is evaluating the potential impact of the implementation of this authoritative guidance on its consolidated financial statements. See Note 4 for information and related disclosures regarding Applied's fair value measurements.

In June 2009, the FASB issued authoritative guidance on variable interest entities, which requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. In December 2009, the FASB issued authoritative guidance on the financial reporting by entities involved with variable interest entities which amends previously issued guidance on variable interest entities. The amendments in this authoritative guidance replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This authoritative guidance becomes effective for Applied in fiscal 2011. Applied is evaluating the potential impact of the implementation of this authoritative guidance on its consolidated financial statements.

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," "predict," "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 Nanomanufacturing TechnologyTM solutions for the global semiconductor, flat panel display, solar and related industries, with a broad portfolio of innovative equipment, service and software products. Applied's customers are primarily manufacturers of semiconductors, flat panel liquid crystal displays (LCDs), solar photovoltaic cells and modules (solar PVs), flexible electronics and energy-efficient glass. Applied operates in four reportable segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. 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 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. After a challenging year in fiscal 2009 that was characterized by credit constraints in the financial markets, a weak global economy and a semiconductor industry downturn, global economic and industry conditions affecting Applied's businesses generally improved in the first nine months of fiscal 2010, except for conditions in the thin film solar PV market.

The following table presents certain significant measurements for the three and nine months ended August 1, 2010 and July 26, 2009:

	Three Months Ended			Nine Months Ended		
	August 1, 2010	July 26, 2009	% Change	August 1, 2010	July 26, 2009	% Change
	(In millions, except per share amounts and percentages)			(In millions, except per share amounts and percentages)		
New orders	$2,725	$1,072	154%	$7,223	$2,624	175%
Net sales	$2,518	$1,134	122%	$6,662	$3,487	91%
Gross margin	$ 860	$ 325	165%	$2,498	$ 872	186%
Gross margin percent	34%	29%	6 points	37%	25%	12 points
Operating income (loss)	$ 183	$ (77)	337%	$ 685	$ (567)	221%
Net income (loss)	$ 123	$ (55)	324%	$ 470	$ (443)	206%
Earnings (loss) per share	$ 0.09	$(0.04)	322%	$ 0.35	$(0.33)	205%

Fiscal year 2010 is a 53-week year with 40 weeks in the first nine months, while fiscal 2009 was a 52-week year with 39 weeks in the first nine months.

Financial results for the third quarter of fiscal 2010 reflected significantly increased demand for manufacturing equipment and services due to more favorable global economic and industry conditions compared to the third quarter of fiscal 2009. Total orders in the quarter increased year-over-year, primarily due to increased demand for most of Applied's products, with the principal exception of SunFab thin film solar manufacturing lines. Net sales and net income increased during the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, led primarily by stronger sales of semiconductor equipment.

In the third quarter of fiscal 2010, Applied incurred charges totaling $405 million associated with a plan to restructure its Energy and Environmental Solutions segment. The action was in response to adverse market conditions for thin film solar, including delays in utility-scale solar adoption, solar panel manufacturers' challenges in obtaining affordable capital, changes and uncertainty in government renewable energy policies, and competitive pressure from crystalline silicon (c-Si) solar technologies. As part of the restructuring, Applied will discontinue sales to new customers of its fully-integrated SunFab lines but will offer individual tools for thin film solar manufacturing. Applied will support existing SunFab customers with services, upgrades and capacity increases through its Applied Global Services segment and will continue RD&E efforts to improve thin film panel efficiency and high-productivity deposition.

Financial results for the first nine months of fiscal 2010 over fiscal 2009 similarly reflected significantly increased demand for manufacturing equipment and services due to more favorable global economic and industry conditions. The increase in total orders from the first nine months of fiscal 2009 was primarily due to increased demand for semiconductor and display products, partially offset by decreased demand for SunFab thin film solar lines. Net sales increased during the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009, due primarily to higher sales of semiconductor and display products. Net income in both periods included restructuring charges.

Results of Operations

New orders of $2.7 billion for the third quarter of fiscal 2010 increased significantly from new orders of $1.1 billion in the third quarter of fiscal 2009. The increase was principally due to greater demand for semiconductor equipment and services, primarily from memory and foundry customers, as well as increased demand for c-Si solar manufacturing products and display equipment. New orders of $7.2 billion for the first nine months of fiscal 2010 more than doubled from the first nine months of fiscal 2009. The increase in new orders was primarily attributable to higher demand for equipment and services from semiconductor customers, as well as increased demand for display equipment and c-Si products.

New orders by geographic region (determined by the location of customers' facilities) for the three and nine months ended August 1, 2010 and July 26, 2009 were as follows:

	Three Months Ended				Nine Months Ended			
	August 1, 2010		July 26, 2009		August 1, 2010		July 26, 2009	
	($)	(%)	($)	(%)	($)	(%)	($)	(%)
	(In millions, except percentages)							
Taiwan	733	27	261	24	2,047	28	407	15
Korea	519	19	114	11	1,467	20	263	10
China	415	15	181	17	1,181	16	276	11
Southeast Asia	245	9	88	8	522	7	159	6
Japan	233	8	151	14	568	8	407	15
Asia Pacific	2,145	78	795	74	5,785	79	1,512	57
North America(*)	342	13	147	14	898	13	511	20
Europe	238	9	130	12	540	8	601	23
Total	2,725	100	1,072	100	7,223	100	2,624	100

* Primarily the United States.

Applied's backlog for the most recent three fiscal quarters was as follows: $3.1 billion at August 1, 2010, $3.0 billion at May 2, 2010, and $2.9 billion at January 31, 2010. Backlog increased 5 percent for the third quarter of 2010 from the second quarter of fiscal 2010, primarily due to an increase in new orders for Silicon Systems Group and Applied Global Services. 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 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 addition, the majority of sales in the largest business segment were from orders received and shipped in the same quarter.

Net sales of $2.5 billion for the third quarter of fiscal 2010 more than doubled from the third quarter of fiscal 2009, reflecting higher sales of equipment and services to semiconductor equipment customers as well as display and c-Si customers. Net sales of $6.7 billion for the first nine months of fiscal 2010 increased 91 percent from the first nine months of fiscal 2009, primarily due to higher sales of semiconductor equipment.

Net sales by geographic region (determined by the location of customers' facilities) for the three and nine months ended August 1, 2010 and July 26, 2009 were as follows:

	Three Months Ended				Nine Months Ended			
	August 1, 2010		July 26, 2009		August 1, 2010		July 26, 2009	
	($)	(%)	($)	(%)	($)	(%)	($)	(%)
	(In millions, except percentages)							
Taiwan	707	28	393	35	1,921	29	699	20
China	469	19	116	10	843	13	356	10
Korea	398	16	129	11	1,361	20	412	12
Japan	203	8	130	12	610	9	501	14
Southeast Asia	162	6	53	5	403	6	183	6
Asia Pacific	1,939	77	821	73	5,138	77	2,151	62
North America(*)	294	12	139	12	765	12	733	21
Europe	285	11	174	15	759	11	603	17
Total	2,518	100	1,134	100	6,662	100	3,487	100

* Primarily the United States.

Gross margin as a percentage of net sales was 34 percent for the third quarter of fiscal 2010, up from 29 percent for the third quarter of fiscal 2009. For the first nine months of fiscal 2010, gross margin as a percentage of net sales was 37 percent, up from 25 percent for the first nine months of fiscal 2009. The increases for both the three and nine months ended August 1, 2010 were principally attributable to higher net sales, more favorable product mix, improved factory utilization, and continued cost control measures, offset in part by inventory-related charges of $247 million related to SunFab thin film solar equipment taken during the third quarter of fiscal 2010 in connection with the restructuring of the Energy and Environmental Solutions segment. These inventory-related charges lowered gross margin for the third quarter of fiscal 2010 by approximately 10 percentage points. Inventory-related charges of $330 million associated with SunFab thin film solar equipment lowered gross margin for the first nine months of fiscal 2010 by approximately 5 percentage points. Gross margin during the third quarters of fiscal 2010 and 2009 included $10 million and $9 million of share-based compensation expense, respectively. Gross margin during the first nine months of fiscal 2010 and 2009 included $23 million of share-based compensation expense in each period.

Operating expenses included expenses related to research, development and engineering (RD&E), marketing and selling (M&S), and general and administrative (G&A). Expenses related to RD&E, M&S and G&A totaled $542 million for the third quarter of fiscal 2010 compared to $402 million for the third quarter of fiscal 2009. This increase in operating expenses for the third quarter of fiscal 2010 reflected the elimination of temporary salary reductions and shutdowns, and the resumption of variable compensation programs. Expenses related to RD&E, M&S

and G&A totaled $1.6 billion for the first nine months of fiscal 2010 compared to $1.3 billion for the first nine months of fiscal 2009. The first nine months of fiscal 2010 included fewer shutdown days than the first nine months of fiscal 2010, an extra week, elimination of temporary salary reductions, and the resumption of variable compensation programs. Operating expenses for the first quarter of fiscal 2010 included transaction and legal costs related to the acquisition of Semitool, Inc. (Semitool) and the Advent Solar, Inc. (Advent Solar) asset purchase.

Operating expenses for the third quarter of fiscal 2010 included asset impairment charges of $110 million and restructuring charges of $45 million associated with the Energy and Environmental Solutions restructuring plan announced in July 2010, offset by a $20 million favorable adjustment to the restructuring plan announced in November 2009. There were no restructuring or asset impairment charges during the third quarter of fiscal 2009.

Operating expenses for the first nine months of fiscal 2010 included asset impairment charges of $110 million and restructuring charges of $45 million associated with the Energy and Environmental Solutions restructuring plan announced in July 2010, restructuring charges of $84 million associated with a restructuring plan announced in November 2009, and asset impairment charges of $9 million related to a facility held for sale. Operating expenses for the first nine months of fiscal 2009 included restructuring charges of $145 million associated with a restructuring program announced in November 2008, and asset impairment charges of $15 million related to wafer cleaning equipment.

During the three and nine months ended August 1, 2010, Applied recognized $8 million and $13 million, respectively, in impairment charges associated with certain equity investments in privately-held companies. For the three months ended July 26, 2009, Applied recognized $2 million in impairment charges associated with certain equity investments in privately-held companies. During the nine months ended July 26, 2009, Applied recognized $79 million in impairment charges, consisting of $45 million associated with its equity method investment in Sokudo, a Japanese joint venture company, and $34 million in impairment charges associated with certain strategic investments.

Net interest income was $3 million for the third quarter of fiscal 2010, down from $5 million for the third quarter of fiscal 2009. Net interest income was $11 million for the first nine months of fiscal 2010, down from $21 million for the first nine months of fiscal 2009. Lower net interest income for the three and nine months ended August 1, 2010 were primarily due to a decrease in interest rates.

Applied's effective income tax rate for the third quarter of fiscal 2010 was a provision of 30.8 percent as compared to a benefit of 26.0 percent for the third quarter of fiscal 2009. Applied's effective income tax rate for the first nine months of fiscal 2010 was a provision of 31.3 percent as compared to a benefit of 32.8 percent for the first nine months of fiscal 2009. The income tax rate for each of these periods included the effect of restructuring charges as discrete items. The effective income tax rate for the first nine months of fiscal 2010 did not include the impact of the U.S. R&D tax credit from the time it expired in December 2009. In the event the U.S. R&D tax credit is enacted on a retroactive basis, there would be a favorable impact to Applied's effective income tax rate. Applied's future effective income tax rate depends on various factors, such as tax legislation, and the geographic composition of Applied's pre-tax income. Management carefully monitors these factors and timely adjusts the interim 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 15 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 corporate functions (certain management, finance, legal, human resources, and RD&E), 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.

Effective in the first quarter of fiscal 2010, Applied changed its methodology for allocating certain expenses to its reportable segments, such as components of variable compensation and operating expenses associated with the global sales organization. Applied has reclassified segment operating results for the three and nine months ended July 26, 2009 to conform to the fiscal 2010 presentation.

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, and wafer packaging. Development efforts are focused on solving customers' key technical challenges, including transistor performance and nanoscale patterning, and improving chip manufacturing productivity to reduce costs.

	Three Months Ended			Nine Months Ended		
	August 1, 2010	July 26, 2009	Change	August 1, 2010	July 26, 2009	Change
	(In millions, except percentages)			(In millions, except percentages)		
New orders	$1,535	$542	$ 993	$4,086	$1,047	$ 3,039
Net sales	1,447	498	949	3,821	1,304	2,517
Operating income	525	67	458	1,329	31	1,298
Operating margin	36%	13%	23 points	35%	2%	33 points

New orders increased by $993 million to $1.5 billion for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, and also increased by $3.0 billion to $4.1 billion for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in new orders for the three and nine months ended August 1, 2010 were primarily from memory and foundry customers and reflected the general recovery in the semiconductor equipment industry from the steep downturn experienced in the first nine months of fiscal 2009. The majority of fiscal 2010 new orders were for customers' capacity expansions, while fiscal 2009 orders were primarily for customers' new technology investments.

Net sales increased by $949 million to $1.4 billion for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 and also increased by $2.5 billion to $3.8 billion for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in net sales for the three and nine months ended August 1, 2010 were primarily due to increased investment by memory and foundry customers. Four customers accounted for 57 percent of net sales in this segment in the first nine months of fiscal 2010. Approximately 65 percent of net sales in the third quarter of fiscal 2010 were for orders received and shipped within the quarter.

The book to bill ratio (new orders divided by net sales) was 1.1 for each of the third quarters of fiscal 2010 and fiscal 2009. The book to bill ratio increased to 1.1 for the first nine months of fiscal 2010, reflecting increased demand, compared to 0.8 for the first nine months of fiscal 2009.

Operating income increased by $458 million to $525 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. Operating income increased significantly to $1.3 billion for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in operating income for the three and nine months ended August 1, 2010 were due to considerably higher revenue from semiconductor equipment sales and reflected the general recovery in the semiconductor equipment industry during the first nine months of fiscal 2010. Results for the three and nine months ended August 1, 2010 included Semitool, which was acquired by Applied during the first quarter of fiscal 2010.

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.

	Three Months Ended			Nine Months Ended		
	August 1, 2010	July 26, 2009	Change	August 1, 2010	July 26, 2009	Change
	(In millions, except percentages)			(In millions, except percentages)		
New orders	$595	$298	$ 297	$1,552	$ 844	$ 708
Net sales	468	342	126	1,349	1,007	342
Operating income	84	24	60	237	49	188
Operating margin	18%	7%	11 points	18%	5%	13 points

New orders increased by $297 million to $595 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, and increased 84 percent to $1.6 billion for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in orders for the three and nine months ended August 1, 2010 were due primarily to higher demand for spare parts and equipment, reflecting customers' higher factory utilization rates as semiconductor industry conditions improved.

Net sales increased 36 percent to $468 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. Net sales increased 34 percent to $1.3 billion for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in net sales for the three and nine months ended August 1, 2010 were primarily due to higher sales of spare parts.

The book to bill ratio increased to 1.3 for the third quarter of fiscal 2010 compared to 0.9 for the third quarter of fiscal 2009. The book to bill ratio increased to 1.2 for the first nine months of fiscal 2010 compared to 0.8 for the first nine months of fiscal 2009.

Operating income increased by $60 million to $84 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. Operating income increased by $188 million to $237 million for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in operating income for the three and nine months ended August 1, 2010 primarily reflected increased sales of spare parts.

Display Segment

The Display segment encompasses products for manufacturing LCDs for TVs, personal computers and other video-enabled devices. The business is focused on expanding market share by differentiation with larger-scale substrates, entry into new markets, and development of products to enable cost reductions through productivity and uniformity.

	Three Months Ended			Nine Months Ended		
	August 1, 2010	July 26, 2009	Change	August 1, 2010	July 26, 2009	Change
	(In millions, except percentages)			(In millions, except percentages)		
New orders	$242	$ 96	$ 146	$624	$135	$ 489
Net sales	216	69	147	618	302	316
Operating income (loss)	64	(8)	72	179	11	168
Operating margin	30%	(11)%	41 points	29%	4%	25 points

New orders increased by $146 million to $242 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, and increased by $489 million to $624 million for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in orders for the three and nine months ended August 1, 2010 reflected the general recovery in the LCD market, as customers increased production levels in response to strong end-demand for flat panel TVs and notebook computers.

Net sales increased by $147 million to $216 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 and increased by $316 million to $618 million for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in net sales for the three and nine months ended August 1, 2010 reflected strong market demand for LCD products. Four customers accounted for 56 percent of net sales for the Display segment in the first nine months of fiscal 2010.

The book to bill ratio decreased to 1.1 for the third quarter of fiscal 2010 compared to 1.4 for the third quarter of fiscal 2009. The book to bill ratio increased to 1.0 for the first nine months of fiscal 2010 compared to 0.4 for the first nine months of fiscal 2009.

Operating income was $64 million for the third quarter of fiscal 2010 compared to an operating loss of $8 million for the third quarter of fiscal 2009. Operating income increased by $168 million to $179 million for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in operating income for the three and nine months ended August 1, 2010 were due to a significant increase in net sales and more favorable product mix.

Energy and Environmental Solutions Segment

The Energy and Environmental Solutions segment includes products for fabricating thin film and 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.

During the third quarter of fiscal 2010, Applied incurred charges related to the restructuring plan for the Energy and Environmental Solutions segment described above of $405 million, which included inventory-related charges of $247 million related to SunFab thin film solar equipment, asset impairment charges of $110 million, employee severance charges of $45 million, and other costs of $3 million. In addition, during the second quarter of fiscal 2010, Applied incurred inventory-related charges of $83 million.

	Three Months Ended			Nine Months Ended		
	August 1, 2010	July 26, 2009	Change	August 1, 2010	July 26, 2009	Change
	(In millions, except percentages)			(In millions, except percentages)		
New orders	$ 353	$ 136	$ 217	$ 961	$ 598	$ 363
Net sales	387	224	163	874	874	—
Operating income (loss)	(371)	(52)	(319)	(552)	(206)	(346)
Operating margin	(96)%	(23)%	(73) points	(63)%	(24)%	(39) points

New orders increased by $217 million to $353 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. New orders increased 61 percent to $961 million for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in orders for the three and nine months ended August 1, 2010 reflected increased demand for c-Si products, particularly wafering and metallization products, offset by diminished demand for SunFab thin film manufacturing lines. The continued challenging operating environment for manufacturers of thin film solar panels, among other factors, contributed to the severe reduction in orders for SunFab lines in the first nine months of fiscal 2010.

Net sales increased 73 percent to $387 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, and were $874 million for each of the first nine months of fiscal 2010 and fiscal 2009. The increases in net sales for the three months ended August 1, 2010 reflected higher sales to c-Si customers. Net sales for the first nine months of fiscal 2010 reflected higher sales to c-Si customers, offset in part by lower sales to SunFab customers than in the first nine months of fiscal 2009.

The book to bill ratio increased to 0.9 for the third quarter of fiscal 2010 compared to 0.6 for the third quarter of fiscal 2009. The book to bill ratio increased to 1.1 for the first nine months of fiscal 2010 compared to 0.7 for the first nine months of fiscal 2009.

The operating loss in the Energy and Environmental Solutions segment increased by $319 million to $371 million for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, and increased by

$346 million to $552 million for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The increases in operating loss for the three and nine months ended August 1, 2010 were primarily due to charges totaling $405 million associated with the Energy and Environmental Solutions restructuring plan announced in July 2010 and lower net sales to SunFab customers, partially offset by increased sales of c-Si products and cost control initiatives.

During both the second and third quarters of fiscal 2010, Applied tested goodwill for potential impairment for the Energy and Environmental Solutions reporting unit as a result of certain developments. The results of the first step of the impairment test indicated that goodwill of the Energy and Environmental Solutions reporting unit was not impaired. Applied tested goodwill of the Energy and Environmental Solutions reporting unit for impairment in the second quarter in light of developments that included the insolvency of a thin film solar customer, inability of other thin film solar customers to secure financing, weaker outlooks for certain customers that in turn reduced their spending plans resulting in the delay or cancellation of thin film production lines, and other adverse operating conditions affecting the solar industry. Applied tested goodwill of the Energy and Environmental Solutions reporting unit for impairment in the third quarter of fiscal 2010 in light of the restructuring announced during the quarter.

Applied utilized the discounted cash flow method of the income approach to estimate the fair value of the Energy and Environmental Solutions reporting unit. Although considered, the market approach was not used as comparable enterprises, market-based growth rates, and gross margins were determined not to be representative of the Energy and Environmental Solutions reporting unit. For the second quarter of fiscal 2010, while the results of the first step of the impairment test indicated that goodwill and intangible assets within the Energy and Environmental Solutions reporting unit were not impaired, the estimated fair value in excess of carrying value had declined from the fourth quarter of fiscal 2009 to the end of the second quarter of fiscal 2010 to approximately $200 million (or 19 percent over the carrying value of the reporting unit). For the third quarter of fiscal 2010, the results of the first step of the impairment test indicated that goodwill and intangible assets within the Energy and Environmental Solutions reporting unit were not impaired and that the estimated fair value in excess of carrying value had increased from the fourth quarter of fiscal 2009 to the end of the third quarter of fiscal 2010 to approximately $1.3 billion (or 165 percent over the carrying value of the reporting unit). The evaluation of goodwill and intangible assets for impairment requires the exercise of significant judgment. The estimates used in the impairment testing were consistent with the discrete forecasts that Applied uses to manage its business, and considered the significant developments that occurred during the quarter. Cash flows beyond the discrete forecasts were estimated using a terminal value rate, which considered the long-term earnings growth rate specific to the Energy and Environmental Solutions reporting unit. The change in the estimated fair value in excess of the carrying value from the second fiscal quarter was due primarily to changes in the business mix of forecasted future operating results and a reduction in the carrying value of the reporting unit. The reduction in the carrying value of the reporting unit was due to inventory-related charges and asset impairments recognized during the third fiscal quarter. The estimated future cash flows were discounted to present value using a discount rate that was the value-weighted average of Applied's estimated cost of equity and debt derived using both known and estimated market metrics, and was adjusted to reflect risk factors that considered both the timing and risks associated with the estimated cash flows. While there are inherent uncertainties related to the significant assumptions used and management's application of these assumptions in conducting the goodwill impairment analysis, Applied believes that the income approach and the related assumptions used provides a reasonable estimate of the fair value of the Energy and Environmental Solutions reporting unit. In the event of future adverse business conditions in the market in which the Energy and Environmental Solutions reporting unit operates, Applied will be required to reassess and update its forecasts and estimates used in a future impairment analysis. If the results of this analysis are lower than current estimates, a material impairment charge may result at that time. (See Note 8 of Notes to Consolidated Condensed Financial Statements.)

Financial Condition, Liquidity and Capital Resources

During the nine months ended August 1, 2010, cash, cash equivalents and investments increased by $361 million from $3.3 billion as of October 25, 2009.

Cash, cash equivalents and investments consisted of the following:

	August 1, 2010	October 25, 2009
	(In millions)	
Cash and cash equivalents	$ 1,564	$ 1,577
Short-term investments	784	638
Long-term investments	1,280	1,052
Total cash, cash equivalents and investments	$ 3,628	$ 3,267

Applied generated $1.2 billion of cash in operating activities for the nine months ended August 1, 2010. The primary sources of cash from operating activities for the nine months ended August 1, 2010 were net income, as adjusted to exclude the effect of non-cash charges including restructuring and asset impairments, depreciation, amortization, share-based compensation, and changes in components of working capital. Changes in working capital included thin film solar inventory-related charges of $330 million. Applied utilized programs to discount letters of credit issued by customers of $134 million for the nine months ended August 1, 2010. 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 nine months ended August 1, 2010, Applied factored accounts receivable of $104 million and discounted promissory notes of $2 million. Days sales outstanding for the third quarter of fiscal 2010 increased to 62 days, compared to 57 days in the second quarter of fiscal 2010, primarily due to increased net sales in the third quarter of fiscal 2010, offset in part by the benefit of factoring and discounted letters of credit. Applied's working capital was $3.7 billion at each of August 1, 2010 and October 25, 2009. During the second quarter of fiscal 2010, Applied received a U.S. federal income tax refund of approximately $130 million for the carryback of Applied's net operating loss from fiscal 2009 to fiscal 2005.

Applied used $847 million of cash from investing activities during the nine months ended August 1, 2010, primarily due to the acquisition of Semitool, a public company based in the state of Montana, for $323 million, net of cash acquired. Purchases of investments, net of proceeds from sales and maturities of investments, totaled $390 million. Capital expenditures were $134 million for the nine months ended August 1, 2010 and included investment in the construction of a solar R&D/demonstration center in Xi'an, China and a manufacturing facility in Singapore.

Applied used $362 million of cash for financing activities during the nine months ended August 1, 2010, consisting primarily of $255 million in cash dividends paid to stockholders and $200 million in common stock repurchases, offset by $99 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 billion in repurchases over the next three years ending in March 2013.

On June 9, 2010, Applied's Board of Directors approved a quarterly cash dividend in the amount of $0.07 per share, payable on September 15, 2010 to stockholders of record as of August 25, 2010. On June 16, 2010, Applied paid a quarterly cash dividend of $0.07 per share to stockholders of record as of May 26, 2010. 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 $1.1 billion, of which $1.0 billion is comprised of a 5-year revolving credit agreement with a group of banks that is scheduled to expire in January 2012. 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 August 1, 2010. Remaining credit facilities in the amount of approximately $91 million are with Japanese banks. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen. No amounts were outstanding under any of the above credit facilities at August 1, 2010.

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 August 1, 2010, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was $50 million. Applied has not recorded any liability in connection with these guarantee arrangements 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 arrangements.

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.

During the nine months ended August 1, 2010, as part of its regular investment review process, Applied recorded impairment charges of $13 million associated with equity investments in privately-held companies. At August 1, 2010, Applied had a gross unrealized loss in its investment portfolio of $0.4 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 a loss is temporary 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 any anticipated recovery in fair value. Generally, the contractual terms of the investments do not permit settlement at prices less than the amortized cost of the investments. While Applied cannot predict future market conditions or market liquidity, Applied believes that its investment policies provide an appropriate means to manage the risks in its investment portfolio.

During the nine months ended August 1, 2010, Applied recorded a bad debt provision of $7 million as a result of certain customers' deteriorating financial condition. During the nine months ended July 26, 2009, Applied recorded a bad debt provision of $63 million as a result of certain customers' deteriorating financial condition. While Applied believes that its allowance for doubtful accounts at August 1, 2010 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

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 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 requires management to make judgments, assumptions and estimates that affect the amounts reported. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

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.

In 2009, the Financial Accounting Standards Board issued amended revenue recognition guidance for arrangements with multiple deliverables and certain software sold with tangible products. This new guidance eliminates the residual method of revenue recognition and allows the use of management’s best estimate of selling price for individual elements of an arrangement when vendor specific evidence or third party evidence is unavailable. Applied implemented this guidance prospectively beginning in the first quarter of fiscal 2010 for transactions that were initiated or materially modified during fiscal 2010. The implementation of the new guidance had an insignificant impact on reported net sales as compared to net sales under previous guidance, as the new guidance did not change the units of accounting within sales arrangements and the elimination of the residual method for the allocation of arrangement consideration had an inconsequential impact on the amount and timing of reported net sales.

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.

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

Applied's investment portfolio includes fixed-income securities with a fair value of approximately $2.0 billion at August 1, 2010. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at August 1, 2010, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $25 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.

Certain operations of Applied are conducted in foreign currencies. 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 and nine months ended August 1, 2010.

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. *Legal Proceedings*

The information set forth above under the caption “Legal Matters” in Note 9 contained in Notes to Consolidated Condensed Financial Statements is incorporated herein by reference.

Item 1A. *Risk Factors*

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 2009 Form 10-K.

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’ manufacturing capacity and advanced technology requirements and spending, which depend in part on customers’ capacity utilization, production volumes, end-use demand, and inventory levels relative to demand, as well as the rate of technology transitions and customers’ access to affordable capital. 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 appropriately align its cost structure with prevailing market conditions; effectively manage its supply chain; and motivate and retain key employees. If Applied does not timely and appropriately adapt to changes in its business environment, Applied’s business, financial condition or results of operations may be materially and adversely affected.

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

The tightening of the credit markets, disruption in the financial markets, and global economic recession that began in 2008 contributed to significant slowdowns in the industries in which Applied operates. Although economic and market conditions have improved, continuing difficulties in the financial markets and uncertainty regarding the global economic recovery are posing challenges. The markets for semiconductors and flat panel displays in particular depend largely on consumer spending. Economic uncertainty exacerbates negative trends in 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’ reduced 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 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 could be negatively impacted and lead to impairment charges. If Applied does not timely and appropriately adapt to changes resulting from the uncertain macroeconomic environment and industry conditions, Applied's business, financial condition or 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 in a difficult financial market;
- differences in growth rates among the semiconductor, display and solar industries;
- abrupt and unforeseen shifts in the nature and amount of customer and end-user demand;
- the increasing cost and complexity for customers to move from product design to volume manufacturing, which may slow the adoption rate for new manufacturing technology;
- the need to reduce the total cost of manufacturing system ownership, due in part to greater demand for lower-cost consumer electronics as 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 greatest portion of Applied's revenues and profitability historically has been derived from sales of manufacturing equipment 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; more complex device structures; more applications and process steps; increasing chip design costs; and the increasing cost and complexity of an integrated manufacturing process;

- the growing number of types and varieties of semiconductors and number of applications across multiple substrate sizes;
- differing market growth rates and capital requirements for different applications, such as memory (including NAND flash and DRAM), logic and foundry, and Applied's ability to compete in these market segments;
- 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;
- semiconductor manufacturers' increasing adoption of more productive 300mm systems in relation to 200mm system capacity, and the resulting effect on demand for manufacturing equipment and services;
- the decreasing rate of capital expenditures as a percentage of semiconductor manufacturers' revenue;
- customers' increasing need for shorter cycle times between order placement and product shipment;
- 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, especially in larger market segments such as etch;
- the increasing concentration of wafer starts in one country, Korea, where Applied's service penetration and service-revenue-per-wafer-start have been lower than in other regions;
- 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; and
- the cost, technical complexity and timing of a proposed transition from 300mm to 450mm wafers.

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 and the concentrated nature of LCD end-use applications. Recently, industry growth has depended to a considerable extent on consumer demand for increasingly larger and more advanced TVs. In addition to the general industry changes described above in the third risk factor, the display industry is characterized by ongoing changes particular to that industry, including:

- the planned expansion of manufacturing facilities in China by display manufacturers based in other countries, and uncertainty regarding their ability to obtain government approvals;
- technical and financial difficulties associated with transitioning to larger substrate sizes for LCDs;
- the effect of a slowing rate of transition to larger substrate sizes on capital intensity and product differentiation;
- new energy efficiency standards for large-screen LCD TVs; 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.

Applied anticipates that an increasing portion of its business will be in the emerging solar market, which, in addition to the general industry changes described above in the third risk factor, is characterized by ongoing changes specific to the solar industry, including:

- the impact on demand for solar PV products arising from the cost of electricity generated by solar PV technology compared to the cost of electricity from the existing grid or other energy sources;
- the varying energy policies of governments around the world and their effect in influencing the rate of growth of the solar PV market and between certain market segments such as rooftop (which is more suited for c-Si modules) and ground-mounted, utility-scale (which is more suited for thin film modules), including the availability and amount of government incentives for solar power such as tax credits, incentives, 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;
- changes in the nature and amount of end demand for solar PVs that adversely impact the sales growth rates and profitability of Applied's products;
- varying levels of infrastructure investment for "smart grid" technologies to modernize and enhance the transmission, distribution and use of electricity, which link distributed solar PV sources to population centers, increase transmission capability, and optimize power usage;
- access to affordable financing and capital by customers and end-users; and
- increasingly greater global production capacity for solar PVs, primarily in China.

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

As Applied operates in a highly competitive environment, its future success depends on many factors, including the effective commercialization and customer acceptance of its nanomanufacturing technology equipment, service 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 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:

- develop new products, 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 products;
- differentiate its products from those of competitors and any disruptive technologies, meet performance specifications, and drive efficiencies and cost reductions;
- maintain operating flexibility to enable different responses to different markets, customers and applications;
- 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;
- 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 volume manufacturing with its customers;
- 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; and

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

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

As part of its growth strategy, Applied must successfully expand into related or new markets and industries, either with its existing nanomanufacturing technology 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;
- differing rates of profitability and growth among its 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 adequate new business processes and systems;
- Applied's ability to rapidly expand its operations to meet increased demand 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 existing operations;
- different customer service requirements;
- new and/or different competitors with potentially more financial or other resources and industry experience;
- 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.

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 third quarter of fiscal 2010, approximately 88 percent of Applied's net sales were to customers in regions outside the United States. Certain of Applied's R&D and/or manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in Singapore, Taiwan, China and Korea. 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;
- variations among, and changes in, local, regional, national or international laws and regulations (including protection of intellectual property and other legal rights, labor laws, and tax and import /export restrictions), 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;
- 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 and culturally diverse operations, projects and people;
- variations in the ability to develop relationships with suppliers and other local businesses;
- fluctuations in interest rates and currency exchange rates, including the relative strength or weakness of the U.S. dollar and the euro;
- the need to provide sufficient levels of technical support in different locations;
- political instability, natural disasters (such as earthquakes, floods or storms), pandemics, terrorism or acts of war in locations where Applied has operations, suppliers or sales;
- cultural and language differences;
- shipping costs and/or delays;
- the need to continually improve the Company's operating cost structure;
- difficulties and uncertainties associated with the entry into new countries;
- 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 both 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. In addition, Applied must regularly reassess the size, capability and location of its global infrastructure and make appropriate changes, and must have effective change management processes and procedures to address changes in its business and operations. These challenges may materially and adversely affect Applied's business, financial condition and results of operations.

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

Applied's semiconductor and flat panel display customer bases historically have been, and are becoming even more, highly concentrated as a result of economic and industry conditions. 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 semiconductor and display customers are making an increasingly greater percentage of their respective industry's capital equipment investments.

In this environment, contracts or orders from a relatively limited number of semiconductor and display 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. 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.

Manufacturing interruptions or delays could affect Applied's ability to meet customer demand, 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. Some key parts may be 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 United States, 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 in recent periods 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, potentially affecting Applied's ability to obtain quality parts on a timely basis. Applied may 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;
- volatility in the availability and cost of materials;
- difficulties or delays in obtaining required import or export approvals;
- information technology or infrastructure failures;
- natural disasters (such as earthquakes, floods or storms); or
- other causes (such as regional economic downturns, pandemics, political instability, terrorism, or acts of war) that could result in delayed deliveries, manufacturing inefficiencies, increased costs or order cancellations.

In addition, Applied's need to rapidly increase its business and manufacturing capacity to meet increases in demand or expedited shipment schedules 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, and investments in, companies, technologies or products in existing, related or new markets for Applied. Acquisitions involve numerous risks, including but not limited to:

- diversion of management’s attention from other operational matters;
- inability to complete acquisitions as anticipated or at all;
- inability to realize anticipated benefits;
- failure to commercialize purchased technologies;
- 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;
- failure to attract, retain and motivate key employees from the acquired business;
- exposure to new operational risks, rules, regulations, customs and practices to the extent acquired businesses are located in countries 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 & safety, 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 disputes with customers, suppliers, partners or stockholders of an acquisition target arising from a proposed or completed transaction;
- unknown, underestimated and/or undisclosed commitments or liabilities;
- inappropriate scale of acquired entities’ critical resources or facilities for business needs; and
- ineffective integration of operations, systems, technologies, products or employees of an acquired business.

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, and the inability to effectively manage these risks could materially and adversely affect Applied’s business, financial condition and results of operations. 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.

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 the company’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.

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

Applied's success and competitiveness depend in large part on its ability to attract, retain and motivate key employees. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, changes in Applied's management or leadership, competitors' hiring practices, cost reduction activities (including workforce reductions), and the effectiveness of Applied's compensation and benefit programs, including its equity-based programs. Applied periodically evaluates its overall compensation program and makes adjustments, as appropriate, to enhance its competitiveness. If Applied does not successfully attract, retain and motivate key employees, Applied may be unable to capitalize on its opportunities and its operating results may be materially and adversely affected.

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

To better align its costs with market conditions, increase its presence in growing markets, enhance productivity, and improve efficiencies, Applied conducts engineering, software development, manufacturing, sourcing and other operations in regions outside the United States, including India, China, and Korea. Applied is implementing a more distributed manufacturing model, which includes transitioning certain manufacturing activities from the United States to Singapore and Taiwan and completing assembly of some systems at the customer site. In addition, Applied outsources certain functions to third parties, including companies in the United States, India, China, Korea and other countries. Outsourced functions include engineering, manufacturing, 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 Applied's intellectual property. 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 is implementing a comprehensive program to better align its global organizations and processes, including initiatives to enhance the Asia supply chain, integrate its sales teams into the business units, 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, 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. 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 off-shoring and outsourcing 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 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 the confidential information of a major customer. Hearings on these matters are ongoing in the Seoul Eastern District Court. Applied is investigating the allegations and underlying circumstances. Applied is also discussing these matters and potential consequences with the major customer. There is a risk that these matters may lead to other claims. Applied currently is unable to determine what impact these matters may have on Applied's business. The magnitude of the impact on Applied's business will depend on many factors, including the outcome of the court proceedings and the discussions with the customer.

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 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; or (3) valuation of Applied's deferred tax assets and liabilities.

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 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. If Applied is found by a court or regulatory agency not to be in compliance with applicable laws, rules or regulations, Applied's business, financial condition and results of operations could be materially and adversely affected.

Applied is subject to internal control evaluations and attestation requirements of Section 404 of the Sarbanes-Oxley Act.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, Applied must include in its Annual Report on Form 10-K a report of management on the effectiveness of Applied's internal control over financial reporting. Ongoing compliance with this requirement is complex, costly and time-consuming. If Applied fails to maintain effective internal control over financial reporting or Applied's management does not timely assess the adequacy of such internal control, Applied could be subject to regulatory sanctions and the public's perception of Applied may decline.

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

The following table provides information as of August 1, 2010 with respect to the shares of common stock repurchased by Applied during the third quarter of fiscal 2010.

Period	Total Number of Shares Purchased (Shares in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program* (Shares in thousands)	Maximum Dollar Value of Shares That May Yet be Purchased Under the Program* (Dollars in millions)
Month #1				
(May 3, 2010 to May 30, 2010)	1,433	$ 12.89	1,433	$ 1,882
Month #2				
(May 31, 2010 to June 27, 2010)	3,259	$ 12.88	3,259	$ 1,840
Month #3				
(June 28, 2010 to August 1, 2010)	3,215	$ 12.30	3,215	$ 1,800
Total	7,907	$ 12.65	7,907	$ 1,800

* 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.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***[Reserved]***

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

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

Exhibit No	Description
10.73	Retirement Agreement and Release between Applied Materials, Inc. and Franz Janker dated July 10, 2010
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.LAB	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE	XBRL Taxonomy Extension Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Presentation Linkbase Document

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)

September 3, 2010

By: /s/ THOMAS S. TIMKO

Thomas S. Timko
Corporate Vice President,
Corporate Controller
and Chief Accounting Officer
(Principal Accounting Officer)

September 3, 2010

FRANZ JANKER

RETIREMENT AGREEMENT AND RELEASE

This Retirement Agreement and Release (“Agreement”) is made by and between Franz Janker (“Employee”) and Applied Materials, Inc. (the “Company”) (jointly referred to as the “Parties” or individually referred to as a “Party”).

RECITALS

WHEREAS, Employee is employed by the Company as its Executive Vice President, Corporate Account Management;

WHEREAS, Employee signed the standard Employee Agreement with the Company dated September 2, 1987 (the “Confidentiality Agreement”);

WHEREAS, Employee’s last day of work shall be on or about July 16, 2010 (“Last Day of Work”);

WHEREAS, Employee’s employment with the Company shall terminate on or about July 30, 2010 (the “Termination Date”);

WHEREAS, the Company and Employee have entered into Stock Option Agreements and Performance Share Agreements dated November 17, 2003, December 7, 2004, December 13, 2005, January 25, 2007, December 10, 2007, March 9, 2009 and January 19, 2010, granting Employee certain performance shares (also called restricted stock units) and the option to purchase shares of the Company’s common stock subject to the terms and conditions of the Company’s Employee Stock Incentive Plan and the relevant Performance Share Agreements and Stock Option Agreements (collectively the “Stock Agreements”); and

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that the Employee may have against the Company and any of the Releasees as defined below, including, but not limited to, any and all claims arising out of, or in any way related to Employee’s employment with, or retirement from, the Company;

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company and Employee hereby agree as follows:

COVENANTS

1. Consideration.

a. Continuing Employment. The Company shall continue to employ Employee on an at-will basis in his role as Executive Vice President, Corporate Account Management up to and including the Termination Date, and shall continue to pay Employee his base salary in accordance with the Company's regular payroll practices up to and including the Termination Date. Employee shall continue to comply with his Confidentiality Agreement as well as all other Company policies. During his employment with the Company, Employee shall continue to be eligible to participate in all benefits and incidents of employment, including the Company's health insurance plan, and he shall continue to accrue paid time off (PTO). In addition, Employee shall continue to vest in stock options and performance shares on the same terms, schedule and conditions as set forth in the Stock Agreements.

b. Cash. The Company agrees to pay Employee a total of $1,979,314.00 as cash severance, less applicable withholding. Provided Employee does not breach this Agreement (including without limitation Section 12), this cash severance will be paid to Employee in three installments as follows: (1) a lump sum cash payment of $714,657.00 (less applicable withholding) shall be paid to Employee not later than 30 days following the Effective Date of this Agreement as set forth in paragraph 24 below; (2) a lump sum cash payment of $550,000.00 (less applicable withholdings) shall be paid to Employee on January 31, 2011; and (3) the final lump sum cash payment of $714,657.00 (less applicable withholding) shall be paid to Employee on August 1, 2011. Prior to Employee's execution of this Agreement, Employee may elect for all or a portion of these payments to be deferred and credited to Employee's account(s) under the 2005 Executive Deferred Compensation Plan (the "Deferred Compensation Plan") in accordance with such election. In order to be valid, such election must be properly executed in accordance with the terms of the election form and returned to the Company prior to the date Employee executes this Agreement. Any such deferred amount shall be credited to Employee's applicable Deferred Compensation Plan account as of the day on which the amount (but for the deferral) would have been paid to Employee pursuant to this Agreement.

c. Benefits. Employee's health insurance benefits shall cease on July 31, 2010, subject to Employee's right to continue his health insurance benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"). Employee may enroll in the Company's Bridge to Medicare Plan in accordance with the rules of that Plan. Except as otherwise provided herein, Employee's participation in all benefits and incidents of employment, including, but not limited to, the accrual of bonuses, PTO, and vesting (including, but not limited to, vesting of equity awards), shall cease as of the Termination Date.

d. Equity Compensation. Each of Employee's stock options that is vested and outstanding on the Termination Date will remain outstanding and exercisable until the applicable date shown on Exhibit A (or if earlier, until the date the option is exercised). Exhibit A shows a complete and accurate list of these stock options (assuming Employee does not exercise any of such options prior to the Termination Date). All of the remaining outstanding stock options and performance shares granted to Employee will not be vested as of the Termination Date and will, on the Termination Date, be forfeited to the Company at no cost to the Company. Exhibit B shows a complete and accurate list of these awards. All of Employee's options and performance shares will continue to be governed by the terms and conditions of the Stock Agreements.

e. Fiscal Year 2010 Bonus. Employee shall not be eligible to receive any payment, or partial payment thereof, with respect to any of the Company's Fiscal Year 2010 bonus programs, plans or other arrangements pursuant to which Employee was or may have been eligible prior to his Termination Date.

2. Payment of Salary. Employee acknowledges and represents that, other than the consideration set forth in this Agreement, the Company has paid or provided all salary, wages, bonuses, accrued vacation/PTO, housing allowances, relocation costs, interest, severance, outplacement costs, fees, reimbursable expenses, commissions, stock, stock options, vesting, and any and all other benefits and compensation due to Employee.

3. Release of Claims. Employee agrees that the consideration set forth in this Agreement represents settlement in full of all outstanding obligations owed to Employee by the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, divisions, and subsidiaries, and predecessor and successor corporations and assigns (collectively, the "Releasees"). Employee, on his own behalf and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute or pursue, any claim, complaint, charge, duty, obligation, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Employee may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Agreement, including, without limitation:

a. any and all claims relating to or arising from Employee's employment relationship with the Company and the termination of that relationship;

b. any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

c. any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; conversion; and disability benefits;

d. any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Rehabilitation Act of 1973; the Americans with Disabilities Act of 1990; the Equal Pay Act; the Fair Labor Standards Act, except as prohibited by law; the Fair Credit Reporting Act; the Age Discrimination in Employment Act of 1967; the Older Workers Benefit Protection Act; the Employee Retirement Income Security Act of 1974; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act, except as prohibited by law; the

Sarbanes-Oxley Act of 2002; the California Family Rights Act; the California Labor Code, except as prohibited by law; the California Workers' Compensation Act, except as prohibited by law; and the California Fair Employment and Housing Act;

e. any and all claims for violation of the federal or any state constitution;

f. any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

g. any claim for any loss, cost, damage, or expense arising out of any dispute over the non-withholding or other tax treatment of any of the proceeds received by Employee as a result of this Agreement; and

h. any and all claims for attorneys' fees and costs.

Employee agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement. This release does not release claims that cannot be released as a matter of law, including, but not limited to: (1) Employee's right to file a charge with, or participate in a charge by, the Equal Employment Opportunity Commission or comparable state agency against the Company (with the understanding that any such filing or participation does not give Employee the right to recover any monetary damages against the Company; Employee's release of claims herein bars Employee from recovering such monetary relief from the Company); (2) claims under Division 3, Article 2 of the California Labor Code (which includes California Labor Code section 2802 regarding indemnity for necessary expenditures or losses by employee); and (3) claims prohibited from release as set forth in California Labor Code section 206.5 (specifically "any claim or right on account of wages due, or to become due, or made as an advance on wages to be earned, unless payment of such wages has been made").

4. <u>Acknowledgment of Waiver of Claims under ADEA</u>. Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 ("ADEA"), and that this waiver and release is knowing and voluntary. Employee agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. Employee acknowledges that the consideration given for this waiver and release is in addition to anything of value to which Employee was already entitled. Employee is advised to consult with an attorney about this Agreement <u>prior</u> to executing this Agreement. Employee acknowledges (a) he has twenty-one (21) days from receipt of this Agreement to consider this Agreement; (b) he has seven (7) days after his execution of this Agreement to revoke this Agreement; (c) this Agreement shall not be effective until after the revocation period has expired; and (d) nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by federal law. In the event Employee signs this Agreement and returns it to the Company in less than the 21-day period identified above, Employee hereby acknowledges that he has freely and voluntarily chosen to waive the time period allotted for considering this Agreement. Employee acknowledges and understands that revocation must be accomplished by a

written notification to Michael R. Splinter, Chairman, President and Chief Executive Officer, that is received prior to the Effective Date.

5. California Civil Code Section 1542. Employee acknowledges that he has been advised to consult with legal counsel and is familiar with the provisions of California Civil Code Section 1542, a statute that otherwise prohibits the release of unknown claims, which provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Employee, being aware of said code section, agrees to expressly waive any rights he may have thereunder, as well as under any other statute or common law principles of similar effect.

6. No Pending or Future Lawsuits. Employee represents that he has no lawsuits, claims, or actions pending in his name, or on behalf of any other person or entity, against the Company or any of the other Releasees. Employee also represents that he does not intend to bring any claims on his own behalf or on behalf of any other person or entity against the Company or any of the other Releasees.

7. Trade Secrets and Confidential Information/Company Property. Employee reaffirms and agrees to observe and abide by the terms of the Confidentiality Agreement, specifically including the provisions therein regarding nondisclosure of the Company’s trade secrets and confidential and proprietary information. Employee’s signature below constitutes his certification that he has returned to the Company all documents and other items provided to Employee by the Company, developed or obtained by Employee in connection with his employment with the Company, or otherwise belonging to the Company. Employee hereby grants consent to notification by the Company to any new employer about Employee’s obligations under this section.

8. No Cooperation. Employee agrees that he will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so. Employee agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order to the Company. If approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Employee shall state no more than that he cannot provide counsel or assistance.

9. Non-Disparagement. Employee agrees to refrain from any disparagement, defamation, libel, or slander of any of the Releasees, and agrees to refrain from any tortious interference with the contracts and relationships of any of the Releasees. Employee shall direct any inquiries by potential future employers to Mary Humiston, the Company’s Group Vice President of

Global Human Resources, who shall use her best efforts to provide only the Employee's last position and dates of employment. The Parties further agree that each Party shall have the opportunity to review and approve any press release or other publicly-distributed communication regarding Employee's departure from the Company prior to publication or release of such communication.

10. Breach. Employee acknowledges and agrees that any material breach of this Agreement (including Section 12) or the Confidentiality Agreement shall entitle the Company immediately to recover and/or cease providing the consideration provided or scheduled to be provided to Employee under Section 1 of this Agreement, unless such breach constitutes a legal action by Employee challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA or as otherwise provided by law. Except as provided by law, including for a legal action by Employee challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA, Employee shall also be responsible to the Company for all damages incurred by the Company in (a) enforcing Employee's obligations under this Agreement or the Confidentiality Agreement, including the bringing of any action to recover the consideration, and (b) defending against a claim or suit brought or pursued by Employee in violation of the terms of this Agreement.

11. No Admission of Liability. Employee understands and acknowledges that this Agreement constitutes a compromise and settlement of any and all actual or potential disputed claims by Employee. No action taken by the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be (a) an admission of the truth or falsity of any actual or potential claims or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Employee or to any third party.

12. Non-Competition. During the period commencing on the Termination Date and ending on July 31, 2011 (the "Non-Competition Period"), Employee shall not (other than in connection with his employment services to the Company through the Termination Date), without the prior express written permission of the Company's CEO, work as an employee, officer, director, consultant, contractor, advisor, or agent of any of the Company's Competitors (as defined below). The Company's Competitors ("Competitors") for purposes of this Agreement are the following: Novellus, ASM International, Lam, TEL (Tokyo Electron), AMEC, KLA, Oerlikon, Ebara Technologies, Hitachi and Varian Semiconductor.

13. Non-Solicitation. Employee agrees that for the duration of the Non-Competition Period, Employee shall not directly or indirectly solicit, induce, recruit or encourage any of the Company's employees to leave their employment at the Company.

14. Costs. The Parties shall each bear their own costs, attorneys' fees, and other fees incurred in connection with the preparation, negotiation and execution of this Agreement.

15. ARBITRATION. THE PARTIES AGREE THAT ANY AND ALL DISPUTES ARISING OUT OF THE TERMS OF THIS AGREEMENT, THEIR INTERPRETATION, AND ANY OF THE MATTERS HEREIN RELEASED, SHALL BE SUBJECT TO ARBITRATION IN SANTA CLARA COUNTY, CALIFORNIA, BEFORE JAMS, PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES ("JAMS RULES"). THE

ARBITRATOR MAY GRANT INJUNCTIONS AND OTHER RELIEF IN SUCH DISPUTES. THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH CALIFORNIA LAW, INCLUDING THE CALIFORNIA CODE OF CIVIL PROCEDURE, AND THE ARBITRATOR SHALL APPLY SUBSTANTIVE AND PROCEDURAL CALIFORNIA LAW TO ANY DISPUTE OR CLAIM, WITHOUT REFERENCE TO ANY CONFLICT-OF-LAW PROVISIONS OF ANY JURISDICTION. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH CALIFORNIA LAW, CALIFORNIA LAW SHALL TAKE PRECEDENCE. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE, AND BINDING ON THE PARTIES TO THE ARBITRATION. THE PARTIES AGREE THAT THE PREVAILING PARTY IN ANY ARBITRATION SHALL BE ENTITLED TO INJUNCTIVE RELIEF IN ANY COURT OF COMPETENT JURISDICTION TO ENFORCE THE ARBITRATION AWARD. THE PARTIES TO THE ARBITRATION SHALL EACH PAY AN EQUAL SHARE OF THE COSTS AND EXPENSES OF SUCH ARBITRATION, AND EACH PARTY SHALL SEPARATELY PAY FOR ITS RESPECTIVE COUNSEL FEES AND EXPENSES; PROVIDED, HOWEVER, THAT THE ARBITRATOR SHALL AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY, EXCEPT AS PROHIBITED BY LAW. THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY. NOTWITHSTANDING THE FOREGOING, THIS SECTION WILL NOT PREVENT EITHER PARTY FROM SEEKING INJUNCTIVE RELIEF (OR ANY OTHER PROVISIONAL REMEDY) FROM ANY COURT HAVING JURISDICTION OVER THE PARTIES AND THE SUBJECT MATTER OF THEIR DISPUTE RELATING TO THIS AGREEMENT AND THE AGREEMENTS INCORPORATED HEREIN BY REFERENCE.

16. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payments and any other consideration provided to Employee or made on his behalf under the terms of this Agreement. Employee agrees and understands that he is responsible for payment, if any, of local, state, and/or federal taxes on the payments and any other consideration provided hereunder by the Company and any penalties or assessments thereon. Employee further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, interest, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of (a) Employee's failure to pay or the Company's failure to withhold, or Employee's delayed payment of, federal or state taxes, or (b) damages sustained by the Company by reason of any such claims, including attorneys' fees and costs.

17. Authority. The Company represents and warrants that the Company's CEO has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Employee represents and warrants that he has the capacity to act on his own behalf and on behalf of all who might claim through him to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

18. No Representations. Employee represents that he has had an opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Employee has not relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement.

19. Severability. In the event that any provision or any portion of any provision hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.

20. Attorneys' Fees. Except with regard to a legal action challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA, in the event that either Party brings an action to enforce or effect its rights under this Agreement, the prevailing Party shall be entitled to recover its costs and expenses, including the costs of mediation, arbitration, litigation, court fees, and reasonable attorneys' fees incurred in connection with such an action.

21. Entire Agreement. This Agreement, the Confidentiality Agreement, and the Stock Agreements represent the entire agreement and understanding between the Company and Employee concerning the subject matter of this Agreement and Employee's employment with and retirement from the Company and the events leading thereto and associated therewith, and supersede and replace any and all prior agreements and understandings concerning the subject matter of this Agreement and Employee's relationship with the Company. To the extent that there is any conflict or inconsistency between this Agreement and the Confidentiality Agreement, this Agreement shall govern.

22. No Oral Modification. This Agreement may be amended only in a writing signed by Employee and the Company's CEO.

23. Governing Law. This Agreement shall be governed by the laws of the State of California, without regard to choice-of-law provisions.

24. Effective Date. Each Party has seven (7) days after that Party signs this Agreement to revoke it. This Agreement will become effective on the eighth day after it has been signed by both parties, provided that it has not been revoked by either Party before that date (the "Effective Date").

25. Counterparts. This Agreement may be executed in counterparts and by facsimile, and each counterpart and facsimile shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

26. Internal Revenue Code Section 409A.

a. Notwithstanding anything to the contrary in this Agreement, no "Deferred Compensation Separation Benefits" (as defined below) will become payable under this Agreement until Employee has a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the final regulations and guidance promulgated thereunder ("Section 409A"). Further, if Employee is a "specified employee" within the meaning of Section 409A at the time of Employee's termination (other than due to death), and the severance payable to Employee, if any, pursuant to this Agreement, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits"), such Deferred Compensation Separation Payments that are otherwise payable within the first six (6) months following Employee's termination of employment will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Employee's termination of employment. All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Employee dies following his termination but prior to the six (6) month anniversary of his termination, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Employee's death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

b. Any amount paid under this Agreement that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Compensation Separation Benefits for purposes of Section 26(a) above.

c. Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the "Section 409A Limit" (as defined below) shall not constitute Deferred Compensation Separation Benefits for purposes of Section 26(a) above. For purposes of this Section 26(c), "Section 409A Limit" will mean the lesser of two (2) times: (i) Employee's annualized compensation based upon the annual rate of pay paid to Employee during the Employee's taxable year preceding the Employee's taxable year of Employee's termination of employment as determined under Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1); or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the 2010 calendar year.

d. The provisions of this Section 26 are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply.

27. Voluntary Execution of Agreement. Employee understands and agrees that he executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of his claims against the Company and any of the other Releasees. Employee acknowledges that:

a. he has read this Agreement;

b. he has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of his own choice or has elected not to retain legal counsel;

c. he understands the terms and consequences of this Agreement and of the releases it contains; and

d. he is fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

FRANZ JANKER, an individual

Dated: July 9, 2010

/s/ Franz Janker
Franz Janker

APPLIED MATERIALS, INC.

Dated: July 10, 2010

By /s/ Michael R. Splinter
Michael R. Splinter
Chairman and Chief Executive Officer

Exhibit A

Options Vested Through the Termination Date

Grant ID	Grant Date	Number of Options	Latest Expiration Date
AMI 206238	11/17/2003	100,000	11/17/2010
AMI 206239	11/17/2003	240,000	11/17/2010
AMI 212817	12/07/2004	260,000	07/30/2011
AMI 561011	12/13/2005	250,000	07/30/2011

Exhibit B

Options and Performance Shares Expiring on the Termination Date

Grant ID	Grant Date	Number of Shares
AMIP 00020	1/25/2007	37,500
AMIP 00028	1/25/2007	37,500
AMIP 680912A	12/10/2007	70,000
AMIP 680912B	12/10/2007	60,000
AMI 715450	03/09/2009	400,000
AMIP 717165	01/19/2010	200,000

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: September 3, 2010

/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: September 3, 2010

/s/ George S. Davis

George S. Davis
Executive Vice President, Chief Financial Officer

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 August 1, 2010, 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 August 1, 2010 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 August 1, 2010 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: September 3, 2010

/s/ Michael R. Splinter
Michael R. Splinter
President and Chief Executive Officer

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 August 1, 2010, 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 August 1, 2010 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 August 1, 2010 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: September 3, 2010

/s/ George S. Davis
George S. Davis
Executive Vice President, Chief Financial Officer