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

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended July 26, 2009

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 July 26, 2009: 1,333,714,002

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(Unaudited) (In thousands, except per share amounts)			
Net sales	$ 1,133,740	$ 1,848,168	$ 3,487,213	$ 6,085,563
Cost of products sold	808,866	1,105,854	2,615,244	3,441,440
Gross margin	324,874	742,314	871,969	2,644,123
Operating expenses:				
Research, development and engineering	234,052	268,559	699,927	828,900
General and administrative	88,487	129,341	330,808	367,352
Marketing and selling	79,518	115,944	248,311	359,271
Restructuring and asset impairments	—	138	159,481	49,634
Income (loss) from operations	(77,183)	228,332	(566,558)	1,038,966
Pre-tax loss of equity method investment	—	6,308	34,983	25,660
Impairment of equity method investment and strategic investments	2,341	—	79,422	—
Interest expense	4,893	4,859	15,945	15,660
Interest income	10,233	25,399	37,257	88,383
Income (loss) before income taxes	(74,184)	242,564	(659,651)	1,086,029
Provision (benefit) for income taxes	(19,319)	77,796	(216,462)	356,378
Net income (loss)	$ (54,865)	$ 164,768	$ (443,189)	$ 729,651
Earnings (loss) per share:				
Basic	$ (0.04)	$ 0.12	$ (0.33)	$ 0.54
Diluted	$ (0.04)	$ 0.12	$ (0.33)	$ 0.53
Weighted average number of shares:				
Basic	1,333,278	1,350,526	1,331,410	1,359,492
Diluted	1,333,278	1,367,557	1,331,410	1,375,656

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS*

	July 26, 2009	October 26, 2008
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,555,470	$ 1,411,624
Short-term investments	583,188	689,044
Accounts receivable, net	842,169	1,691,027
Inventories	1,748,507	1,987,017
Deferred income taxes, net	304,706	388,807
Income taxes receivable	421,935	125,605
Other current assets	308,817	371,033
Total current assets	5,764,792	6,664,157
Long-term investments	990,167	1,367,056
Property, plant and equipment	2,876,731	2,831,952
Less: accumulated depreciation and amortization	(1,788,673)	(1,737,752)
Net property, plant and equipment	1,088,058	1,094,200
Goodwill, net	1,171,740	1,174,673
Purchased technology and other intangible assets, net	327,351	388,429
Equity method investment	—	79,533
Deferred income taxes and other assets	238,173	238,270
Total assets	$ 9,580,281	$ 11,006,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,203	$ 1,068
Accounts payable and accrued expenses	1,056,532	1,545,355
Customer deposits and deferred revenue	911,485	1,225,735
Income taxes payable	69,763	173,394
Total current liabilities	2,038,983	2,945,552
Long-term debt	201,200	201,576
Other liabilities	326,489	310,232
Total liabilities	2,566,672	3,457,360
Stockholders' equity:		
Common stock	13,337	13,308
Additional paid-in capital	5,198,613	5,095,894
Retained earnings	10,896,826	11,601,288
Treasury stock	(9,100,915)	(9,134,962)
Accumulated other comprehensive income (loss)	5,748	(26,570)
Total stockholders' equity	7,013,609	7,548,958
Total liabilities and stockholders' equity	$ 9,580,281	$ 11,006,318

* Amounts as of July 26, 2009 are unaudited. Amounts as of October 26, 2008 are derived from the October 26, 2008 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	July 26, 2009	July 27, 2008
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (443,189)	$ 729,651
Adjustments required to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	219,609	240,039
Loss on fixed asset retirements	16,165	27,880
Provision for bad debts	62,539	—
Restructuring and asset impairments	159,481	49,634
Deferred income taxes	96,117	(60,886)
Excess tax benefits from equity-based compensation plans	—	(5,406)
Net recognized loss (gain) on investments	13,083	(1,244)
Pretax loss of equity-method investment	34,983	25,660
Impairment of equity-method investment and strategic investments	79,422	—
Equity-based compensation	116,114	135,165
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	786,319	534,104
Inventories	238,510	(504,555)
Other current assets	49,990	77,593
Other assets	(7,134)	(4,383)
Accounts payable and accrued expenses	(632,193)	(127,423)
Customer deposits and deferred revenue	(314,250)	530,347
Income taxes	(419,297)	(66,603)
Other liabilities	36,527	4,578
Cash provided by operating activities	92,796	1,584,151
Cash flows from investing activities:		
Capital expenditures	(187,804)	(209,512)
Cash paid for acquisition, net of cash acquired	—	(235,324)
Proceeds from sales and maturities of investments	1,121,026	4,514,648
Purchases of investments	(649,417)	(4,608,845)
Cash provided by (used in) investing activities	283,805	(539,033)
Cash flows from financing activities:		
Debt repayments	(241)	(1,854)
Proceeds from common stock issuances	29,406	334,575
Common stock repurchases	(22,906)	(1,199,984)
Excess tax benefits from equity-based compensation plans	—	5,406
Payment of dividends to stockholders	(239,756)	(245,559)
Cash used in financing activities	(233,497)	(1,107,416)
Effect of exchange rate changes on cash and cash equivalents	742	108
Increase (decrease) in cash and cash equivalents	143,846	(62,190)
Cash and cash equivalents — beginning of period	1,411,624	1,202,722
Cash and cash equivalents — end of period	$ 1,555,470	$ 1,140,532
Supplemental cash flow information:		
Cash payments for income taxes	$ 139,625	$ 349,914
Cash payments for interest	$ 7,212	$ 7,243

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation and Equity-Based Compensation

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 26, 2008 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 26, 2008 (2008 Form 10-K). Applied's results of operations for the three and nine months ended July 26, 2009 are not necessarily indicative of future operating results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (United States) 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.

Prior period amounts for customer deposits and deferred revenue have been reclassified to conform to the current period presentation.

During the first quarter of fiscal 2009, Applied elected to implement Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)." As a result of this implementation, Applied changed the measurement date for its defined and postretirement benefit plan assets and obligations from an interim date to Applied's fiscal year end. Accordingly, Applied recorded a $2 million (after tax) adjustment to the fiscal 2009 beginning balance of retained earnings.

Equity-Based Compensation

Applied has adopted stock plans that permit grants to employees of equity-based awards, including stock options, restricted stock and restricted stock units (also referred to as "performance shares" under the Applied Materials, Inc. 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 (ESPP) for United States and international employees, respectively, which enable eligible employees to purchase Applied common stock.

During the three months ended July 26, 2009 and July 27, 2008, Applied recognized equity-based compensation expense related to stock options, ESPP shares, restricted stock units and restricted stock of $43 million and $46 million, respectively. During the three months ended July 26, 2009 and July 27, 2008, Applied recognized income tax benefits related to equity-based compensation of $12 million and $13 million, respectively. During the first nine months of fiscal 2009, Applied recognized total equity-based compensation expense of $116 million and a tax benefit of $33 million. During the first nine months of fiscal 2008, Applied recognized total equity-based compensation expense of $135 million and a tax benefit of $38 million. The equity-based compensation expense related to restricted stock units and restricted stock for the three months ended July 26, 2009 and July 27, 2008 was $31 million and $34 million, respectively, and for the nine months ended July 26, 2009 and July 27, 2008 was $94 million and $101 million, respectively. The estimated fair value of Applied's equity-based awards, less expected forfeitures, is amortized over the awards' service periods on a straight-line basis.

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 three to four years and expire no later than seven years from the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Applied's 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	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Stock Options:				
Dividend yield	2.25%	1.24%	2.80%	1.24%
Expected volatility	46%	32%	50%	32%
Risk-free interest rate	1.3%	2.9%	1.3%	3.0%
Expected life (in years)	3.0	3.9	3.0	3.9

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.

Applied granted 13,000 and 24,514,000 stock options during the three and nine months ended July 26, 2009, respectively. Applied granted 6,000 and 7,000 stock options during the three and nine months ended July 27, 2008, respectively. The weighted average grant date fair value of options granted during the three months ended July 26, 2009 and July 27, 2008 was $2.99 and $5.05, respectively, and for options granted during the nine months ended July 26, 2009 and July 27, 2008, the value was $2.52 and $5.05, respectively.

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 of the applicable offering period or at the end of each applicable purchase period. Effective March 2, 2009, the length of offering periods under the ESPP was reduced to 6 months, from a maximum of 24 months in duration. The incremental compensation cost associated with this modification was insignificant. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was $2.99 and $4.88 for the nine months ended July 26, 2009 and July 27, 2008, respectively. No shares were issued under the ESPP during the three months ended July 26, 2009 and July 27, 2008, respectively. The number of shares issued during the nine months ended July 26, 2009 and July 27, 2008 was 3,536,000 and 2,294,000, 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	
	July 26, 2009	July 27, 2008
ESPP:		
Dividend yield	2.71%	1.19%
Expected volatility	69%	29%
Risk-free interest rate	0.41%	4.63%
Expected life (in years)	0.5	1.25

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 units typically vest over three to four years. Vesting of restricted stock units usually is subject to the grantee's continued service with Applied. 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. There were 2,811,000 and 1,603,000 restricted stock units granted in the three months ended July 26, 2009 and July 27, 2008, respectively, and 3,383,000 and 3,752,000 restricted stock units granted in the nine months ended July 26, 2009 and July 27, 2008, respectively.

Beginning in fiscal 2007, Applied initiated a performance-based equity award program for named executive officers and other key employees. These awards 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. There were no performance-based awards granted in the nine months ended July 26, 2009. The Committee approved the award of 1,565,000 performance-based restricted stock units under this program for fiscal year 2008. The Committee also approved an award of 100,000 shares of performance-based restricted stock for fiscal year 2008 to Applied's President and Chief Executive Officer at a purchase price of $0.01 per share. The fair value of the performance-based restricted stock units and restricted stock is estimated using the fair market value of Applied common stock on the date of the grant and assumes that the performance goals will be achieved. If achieved, the award vests 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. As of July 26, 2009, 70% of the performance goals associated with the fiscal 2008 awards were achieved. The performance goals associated with the remaining 30% may still be achieved, depending on future performance, during the remaining three fiscal years.

Note 2 Treasury Stock

Applied records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid in capital. If Applied reissues treasury stock at an amount below its acquisition cost and additional paid in capital associated with prior treasury stock transactions is insufficient to cover the difference between the acquisition cost and the reissue price, this difference is recorded against retained earnings. During the nine months ended July 26, 2009, shares of treasury stock were issued in connection with Applied's ESPP at an aggregate value that was less than the treasury stock's acquisition price, resulting in $20 million being recorded against retained earnings.

Note 3 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 ESPP 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 value of Applied common stock for the period, as the effect would be anti-dilutive. Accordingly, options to purchase 25,022,000 shares of common stock for the three months ended July 27, 2008, and 27,512,000 shares of common stock for the nine months ended

July 27, 2008, were excluded from the computation. Potential common shares have not been included in the calculation of diluted net loss per share, 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. The number of potential common shares that could dilute basic earnings per share in the future was 91,655,000 for the three and nine months ended July 26, 2009.

Note 4 Financial Instruments and Fair Value

Investments

Investments by security type at July 26, 2009 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
U.S. Treasury and agency securities	$ 635,068	$ 10,115	$ 160	$ 645,023
Obligations of states and political subdivisions	404,995	8,013	351	412,657
U.S. commercial paper, corporate bonds and medium-term notes	304,959	3,961	1,043	307,877
Other debt securities	106,442	1,459	4,110	103,791
Total fixed income securities	1,451,464	23,548	5,664	1,469,348
Publicly traded equity securities	9,572	4,555	—	14,127
Equity investments in privately-held companies	89,880	—	—	89,880
Total	$ 1,550,916	$ 28,103	$ 5,664	$ 1,573,355

Investments by security type at October 26, 2008 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
U.S. Treasury and agency securities	$ 583,979	$ 5,839	$ 1,257	$ 588,561
Obligations of states and political subdivisions	749,225	1,993	2,824	748,394
U.S. commercial paper, corporate bonds and medium-term notes	382,054	141	14,903	367,292
Other debt securities	255,777	535	11,507	244,805
Bank certificate of deposit	342	—	2	340
Total fixed income securities	1,971,377	8,508	30,493	1,949,392
Publicly traded equity securities	29,165	—	17,205	11,960
Equity investments in privately-held companies	94,748	—	—	94,748
Total	$ 2,095,290	$ 8,508	$ 47,698	$ 2,056,100

Cash and cash equivalents included investments in debt and other securities of $189 million at July 26, 2009 and $224 million at October 26, 2008. Other debt securities consist primarily of investment grade asset-backed and mortgage-backed securities.

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Contractual maturities of investments at July 26, 2009 were as follows:

	Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 562,596	$ 566,762
Due after one through five years	758,482	773,286
Due after five years	23,944	25,508
No single maturity date*	205,894	207,799
	$ 1,550,916	$ 1,573,355

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

At July 26, 2009, Applied had a gross unrealized loss of $6 million due to a decrease in the fair value of certain fixed income securities primarily as a result of the continuing turmoil in the global financial markets. 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 recovery. Generally, the contractual terms of the investments do not permit settlement at prices less than the amortized cost of the investments. Applied has determined that the gross unrealized losses on its investments at July 26, 2009 are temporary in nature. Accordingly, Applied does not consider the investments to be other-than-temporarily impaired at July 26, 2009.

The following table provides the gross unrealized losses and the fair market value of Applied's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of July 26, 2009.

	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	$ 60,315	$ 160	$ —	$ —	$ 60,315	$ 160
Obligations of states and political subdivisions	55,975	329	3,405	22	59,380	351
U.S. commercial paper, corporate bonds and medium-term notes	111,149	368	29,785	675	140,934	1,043
Other debt securities	1,572	108	34,705	4,002	36,277	4,110
Total	$ 229,011	$ 965	$ 67,895	$ 4,699	$ 296,906	$ 5,664

Applied manages its cash equivalents and investments, excluding strategic investments, as a single portfolio of highly marketable securities that is intended to be available to meet Applied's current cash requirements. For the three months ended July 26, 2009, gross realized gains on sales of investments and gross realized losses were each $1 million. For the three months ended July 27, 2008, gross realized gains on sales of investments were $1 million and gross realized losses were $2 million. For the nine months ended July 26, 2009, gross realized gains on sales of investments were $6 million and gross realized losses were $10 million. For the nine months ended July 27, 2008, gross realized gains on sales of investments were $11 million and gross realized losses were $8 million. There were no credit losses for the three and nine months ended July 26, 2009.

On October 27, 2008, Applied adopted the provisions of Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (SFAS 157), with respect to financial assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure requirements for fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset, or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, which may be used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets or liabilities;
- Level 2 — Observable inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Applied’s investments are comprised primarily of debt securities that are classified as available-for-sale and recorded at their fair value. In determining the fair value of investments, Applied uses pricing information from pricing services that value securities based on quoted market prices and models that utilize observable market inputs. In the event a fair value estimate is unavailable from a pricing service, Applied generally obtains non-binding price quotes from brokers. Applied then reviews the information provided by the pricing services or brokers to determine the fair value of its short-term and long-term investments. In addition, to validate pricing information obtained from pricing services, Applied periodically performs supplemental analysis on a sample of securities. Applied reviews any significant unanticipated differences identified through this analysis to determine the appropriate fair value.

In general, investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. As of July 26, 2009, a substantial majority of Applied’s available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

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

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Financial Assets/Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities (excluding cash balances) measured at fair value on a recurring basis are summarized below as of July 26, 2009:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Assets				
Money market funds	$ 1,310,936	$ —	$ —	$ 1,310,936
U.S. Treasury and agency securities	198,299	446,724	—	645,023
Obligations of states and political subdivisions	—	412,657	—	412,657
U.S. commercial paper, corporate bonds and medium-term notes	—	307,877	—	307,877
Other debt securities	—	102,183	1,608	103,791
Publicly traded equity securities	14,127	—	—	14,127
Foreign exchange derivative assets	—	2,183	—	2,183
Total	$ 1,523,362	$ 1,271,624	$ 1,608	$ 2,796,594
Liabilities				
Foreign exchange derivative liabilities	$ —	$ (1,914)	$ —	$ (1,914)
Total	$ —	$ (1,914)	$ —	$ (1,914)

At July 26, 2009, the fair value of Level 3 assets measured on a recurring basis was $2 million, representing approximately 0.1% of the total fair value of Applied's investment portfolio. Level 3 assets consisted of asset-backed and mortgage-backed securities totaling $2 million, which values were based on non-binding, broker-provided price quotes and may not have been corroborated by observable market data.

Financial Assets/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 $90 million at July 26, 2009, 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 during fiscal 2009 due to an other-than-temporary decline in value. The following table presents the balance of equity securities at 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:

	Level 1	Level 2	Level 3	Total Impairment for the Three Months Ended July 26, 2009	Total Impairment for the 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

Impairments associated with financial assets for the nine months ended July 26, 2009 totaled $79 million and consisted of the following: equity method investment in Sokudo Co., Ltd., a Japanese joint venture company, $45 million; publicly traded equity securities, $20 million; and equity investments in privately-held companies, $14 million.

Derivative Financial Instruments

Derivative instruments and hedging activities, including foreign currency exchange contracts, are recognized on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of any hedges, are recognized currently in earnings. All of Applied's derivative financial instruments are recorded at their fair value in other current assets or accounts payable and accrued expenses.

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as Japanese yen, euro, Israeli shekel and Swiss francs. The purpose of Applied's foreign currency management is to mitigate the effect of exchange rate fluctuations on certain foreign currency denominated revenues, costs and eventual cash flows. The terms of currency instruments used for hedging purposes are generally consistent with the timing of the transactions being hedged. Applied does not use derivative financial instruments for trading or speculative purposes.

Applied uses derivative financial instruments, such as forward exchange contracts and currency option contracts, to hedge certain forecasted foreign currency denominated transactions expected to occur typically within the next 24 months. Hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges and are typically entered into once per month. Cash flow hedges are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income or loss (AOCI) in stockholders' equity and is reclassified into earnings when the hedged transaction affects earnings. The majority of the after-tax net income or loss related to derivative instruments included in accumulated other comprehensive income or loss at July 26, 2009 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Both ineffective hedge amounts and hedge components excluded from the assessment of effectiveness are recognized promptly in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three months ended July 26, 2009 and was $25 million for the nine months ended July 26, 2009. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three and nine months ended July 27, 2008. Gains and losses on foreign exchange contracts designated as cash flow hedges are presented in general and administrative expenses.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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

Fair values of derivative instruments were as follows:

	July 26, 2009			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)			
Derivatives Designated as Hedging Instruments				
Foreign exchange contracts	Other current assets	$ 1,786	Accounts payable and accrued expenses	$ 1,583
Derivatives Not Designated as Hedging Instruments				
Foreign exchange contracts	Other current assets	$ 397	Accounts payable and accrued expenses	$ 331
Total derivatives		$ 2,183		$ 1,914

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

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

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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

	Location of Gain or (Loss) Recognized in Income	Three Months Ended July 26, 2009 Amount of Gain or (Loss) Recognized in Income	Nine Months Ended July 26, 2009 Amount of Gain or (Loss) Recognized in Income
		(In thousands)	
Derivatives Not Designated as Hedging Instruments			
Foreign exchange contracts	General and administrative	$ (1,518)	$ (11,410)
Total		$ (1,518)	$ (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, and certain counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a liability position was immaterial as of July 26, 2009.

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.

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

Fair Value of Financial Instruments

The carrying amounts of Applied's financial instruments, including cash and cash equivalents, accounts receivable, notes payable, and accounts payable and accrued expenses, approximate fair value due to the short maturities of these financial instruments. At July 26, 2009, the carrying amount of long-term debt was $202 million and the estimated fair value was $217 million. At October 26, 2008, the carrying amount of long-term debt was $203 million and the estimated fair value was $198 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 Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable from selected customers. Applied also discounts letters of credit through various financial institutions. Under these agreements, Applied sold accounts receivable and discounted letters of credit in the amounts of $102 million and $20 million for the three months ended July 26, 2009 and July 27, 2008, respectively, and $179 million and $218 million for the nine months ended July 26, 2009 and July 27, 2008, respectively. 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 $67 million at July 26, 2009 and $5 million at October 26, 2008.

Applied sells principally to manufacturers within the semiconductor, display and solar industries. As a result of extremely 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 July 26, 2009, Applied will continue to closely monitor customer liquidity and economic conditions, which may result in changes to Applied's estimates regarding collectability.

Note 6 Inventories

Inventories are stated at the lower of cost or market, with cost determined on a FIFO basis. Components of inventories were as follows:

	July 26, 2009	October 26, 2008
	(In thousands)	
Customer service spares	$ 275,011	$ 526,825
Raw materials	376,430	381,457
Work-in-process	695,505	665,123
Finished goods	401,561	413,612
	$ 1,748,507	$ 1,987,017

Included in finished goods inventory is $118 million at July 26, 2009, and $165 million at October 26, 2008, 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 of Notes to Consolidated Financial Statements in Applied's 2008 Form 10-K.

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.

Note 7 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

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. For goodwill, Applied performs a two-step impairment test. In the first step, Applied compares the 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. Under the market approach, Applied estimates the fair value based on market multiples of revenue or earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then Applied would perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. Applied would then allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, as if Applied had acquired the reporting unit in a business combination, with the fair value of the reporting unit being the "purchase price". The excess of the "purchase price" over the carrying amounts assigned to assets and liabilities representing 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 loss equal to the difference.

Applied conducted these impairment tests in the fourth quarter of fiscal 2008, and the results of these tests indicated that Applied's goodwill and purchased intangible assets with indefinite useful lives were not impaired.

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

Details of indefinite-lived intangible assets were as follows:

	July 26, 2009			October 26, 2008		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	$ 1,217,610	$ 17,860	$ 1,235,470	$ 1,220,543	$ 17,860	$ 1,238,403
Accumulated amortization	(45,870)	—	(45,870)	(45,870)	—	(45,870)
	$ 1,171,740	$ 17,860	$ 1,189,600	$ 1,174,673	$ 17,860	$ 1,192,533

From October 26, 2008 to July 26, 2009, goodwill decreased by $3 million due to an adjustment in the purchase price allocation of an acquisition as a result of a change in estimate of Applied's ability to utilize tax net operating loss carryforwards associated with this acquisition. Other intangible assets that are not subject to amortization consist primarily of a trade name. As of July 26, 2009, indefinite-lived intangible assets by reportable segment were: Energy and Environmental Solutions, $654 million; Silicon, $224 million; Applied Global Services, $196 million; and Display, $116 million.

Finite-Lived Purchased Intangible Assets

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

Applied evaluates long-lived assets, such as property, plant and equipment, and purchased intangible assets with finite lives, 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:

	July 26, 2009			October 26, 2008		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	$ 553,620	$ 329,629	$ 883,249	$ 548,029	$ 329,629	$ 877,658
Accumulated amortization	(392,358)	(181,400)	(573,758)	(369,183)	(137,906)	(507,089)
	$ 161,262	$ 148,229	$ 309,491	$ 178,846	$ 191,723	$ 370,569

Aggregate amortization expense was $22 million and $37 million for the three months ended July 26, 2009 and July 27, 2008, respectively, and $67 million and $90 million for the nine months ended July 26, 2009 and July 27, 2008, respectively. As of July 26, 2009, future estimated amortization expense is expected to be $22 million for the remainder of fiscal 2009, $65 million for fiscal 2010, $51 million for fiscal 2011, $47 million for fiscal 2012, $43 million for fiscal 2013, and $80 million thereafter. As of July 26, 2009, amortized intangible assets by reportable segment were: Energy and Environmental Solutions, $229 million; Applied Global Services, $44 million; Display, $30 million; and Silicon, $6 million.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 8 Accounts Payable and Accrued Expenses

Components of accounts payable and accrued expenses were as follows:

	July 26, 2009	October 26, 2008
	(In thousands)	
Accounts payable	$ 398,541	$ 588,255
Compensation and employee benefits	188,309	370,409
Warranty	118,502	142,846
Dividends payable	80,023	79,846
Other accrued taxes	52,984	121,620
Restructuring reserve	48,168	20,447
Other	170,005	221,932
	$ 1,056,532	$ 1,545,355

Note 9 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three and nine months ended July 26, 2009 and July 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In thousands)			
Beginning balance	$ 131,871	$ 161,089	$ 142,846	$ 184,271
Provisions for warranty	19,052	27,081	64,771	93,613
Consumption of reserves	(32,421)	(46,179)	(89,115)	(135,893)
Ending balance	$ 118,502	$ 141,991	$ 118,502	$ 141,991

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 July 26, 2009, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was $96 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 July 26, 2009, Applied Materials, Inc. has provided parent guarantees to banks for approximately $175 million to cover these arrangements.

Legal matters

Jusung

Applied has been engaged in a number of lawsuits and patent and administrative proceedings in Taiwan and South Korea since 2003 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 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 filed a lawsuit against Applied and AKT America in Hsinchu District Court in Taiwan alleging infringement of the same patent. The TIPO granted Applied's request for invalidation and revoked Jusung Engineering's patent. In March 2009, the Hsinchu District Court dismissed Jusung Engineering's lawsuit, and in April 2009, the Ministry of Economic Affairs overruled Jusung Engineering's administrative appeal of the decision revoking its patent. Jusung has appealed both decisions. 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 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 three successive rulings not to prosecute, each of which Jusung Engineering has appealed to the Taiwan High Court District Attorney. 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.

In 2007, Jusung Engineering filed a complaint against AKT America in Seoul Central District Court in Seoul, Korea, alleging infringement of a Jusung patent involving the showerhead assembly of plasma enhanced chemical vapor deposition (PECVD) equipment. After the Korean Intellectual Property Office (KIPO) ruled that Jusung's patent was invalid, the District Court dismissed Jusung Engineering's infringement action, which Jusung Engineering has appealed. On July 9, 2009, the Korean Supreme Court dismissed Jusung's appeal of the KIPO's determination that the PECVD patent is invalid, and Jusung has no further right of appeal in this matter. On July 30, 2009, Jusung Engineering's related confirmation-of-scope action was dismissed based on the Supreme Court's invalidation of the PECVD patent. Applied has submitted notice of the Supreme Court's invalidity decision to the High Court considering Jusung's appeal in the infringement action. In 2007, Applied filed a complaint against Jusung Engineering in the Seoul Central District Court for infringement of an Applied patent involving the housing for a substrate supporting pin used in PECVD equipment. The KIPO subsequently ruled in favor of an action by Jusung to invalidate Applied's substrate patent. The Patent Court dismissed Applied's appeal and Applied has appealed to the Supreme Court. The District Court has dismissed Applied's complaint, and Applied's appeal was also dismissed. Applied's related confirmation of scope case was dismissed, and Applied's appeal of that ruling was also dismissed.

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 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 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 November 12, 2008, Applied announced a restructuring program to reduce its global workforce by approximately 1,800 positions. During the first quarter of fiscal 2009, Applied recorded restructuring charges of $133 million associated with this program. The restructuring charges consisted of employee termination costs to reduce the Company's workforce through a combination of attrition, voluntary separation and other workforce reduction programs. During the second quarter of fiscal 2009, Applied expanded the scope of the restructuring program by approximately 200 positions, resulting in an additional cost of $12 million, for an aggregate cost of $145 million.

Changes in restructuring reserves related to severance under this restructuring program for the nine months ended July 26, 2009 were as follows:

	Severance (In thousands)
Provision for restructuring reserves	$ 132,658
Consumption of reserves	(12,393)
Balance, January 25, 2009	120,265
Provision for restructuring reserves	12,243
Consumption of reserves	(77,895)
Balance, April 26, 2009	54,613
Consumption of reserves	(14,571)
Balance, July 26, 2009	$ 40,042

Changes in restructuring reserves for the nine months ended July 26, 2009 related to other restructuring plans and facilities realignment programs initiated in prior periods were as follows:

	Severance	Facilities (In thousands)	Total
Balance, October 26, 2008	$ 5,702	$ 14,745	$ 20,447
Provision for restructuring reserves	—	114	114
Consumption of reserves	(2,830)	(2,215)	(5,045)
Foreign currency changes	(182)	(1,123)	(1,305)
Balance, January 25, 2009	2,690	11,521	14,211
Consumption of reserves	(1,249)	(1,639)	(2,888)
Adjustment of restructuring reserves	—	(2,169)	(2,169)
Foreign currency changes	—	276	276
Balance, April 26, 2009	1,441	7,989	9,430
Consumption of reserves	(644)	(1,358)	(2,002)
Foreign currency changes	—	698	698
Balance, July 26, 2009	$ 797	$ 7,329	$ 8,126

During the nine months ended July 26, 2009, Applied determined that the carrying value of certain fixed assets to be sold exceeded the estimated fair value and, as a result, recorded a $15 million impairment charge. In addition, Applied incurred expenses of $1.5 million in connection with ceasing use of certain leased facilities.

Note 11 Stockholders' Equity

Comprehensive Income

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

	Three Months Ended		Nine Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In thousands)			
Net income (loss)	$ (54,865)	$ 164,768	$ (443,189)	$ 729,651
Pension liability adjustment	—	—	112	—
Change in unrealized net gain (loss) on investments	7,958	(8,133)	39,294	(27,025)
Change in unrealized net gain (loss) on derivative instruments qualifying as cash flow hedges	508	(2,333)	(7,795)	5,049
Foreign currency translation adjustments	810	(520)	707	2,201
Comprehensive income (loss)	$ (45,589)	$ 153,782	$ (410,871)	$ 709,876

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

	July 26, 2009	October 26, 2008
	(In thousands)	
Pension liability	$ (19,560)	$ (19,672)
Retiree medical benefits	734	734
Unrealized gain (loss) on investments, net	14,310	(24,984)
Unrealized gain on derivative instruments qualifying as cash flow hedges	244	8,039
Cumulative translation adjustments	10,020	9,313
	$ 5,748	$ (26,570)

For further details on derivative instruments, see Note 4 of the Notes to Consolidated Condensed Financial Statements.

Stock Repurchase Program

On September 15, 2006, Applied's Board of Directors approved a stock repurchase program for up to $5.0 billion in repurchases over the three years ending in September 2009, of which authorization for $2.3 billion of repurchases remained as of July 26, 2009. Under this authorization, Applied implemented a systematic stock repurchase program and also has made supplemental repurchases of its common stock from time to time in the open market, depending on market conditions, stock price and other factors. In November 2008, Applied announced that it had temporarily suspended stock repurchases in light of uncertain global economic and market conditions.

Applied did not repurchase any shares of its common stock during the three months ended July 26, 2009. During the three months ended July 27, 2008, Applied repurchased 15,611,000 shares of its common stock at an average price of $19.22 per share for a total cash outlay of $300 million. 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. During the nine months ended July 27, 2008, Applied repurchased 64,263,000 shares of its common stock at an average price of $18.67 per share for a total cash outlay of $1.2 billion.

Dividends

In June 2009, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.06 per share payable on September 3, 2009 to stockholders of record as of August 13, 2009. In March 2009, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.06 per share that was paid on June 4, 2009 to stockholders of record as of May 14, 2009. In December 2008, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.06 per share that was paid on March 5, 2009 to stockholders of record as of February 12, 2009. 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.

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 medical and vision benefits to eligible retirees. A summary of the components of net periodic benefit costs of these defined and postretirement benefit plans for the three and nine months ended July 26, 2009 and July 27, 2008 is presented below:

	Three Months Ended (In thousands)		Nine Months Ended (In thousands)	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Service cost	$ 3,290	$ 3,840	$ 9,870	$ 11,520
Interest cost	3,007	3,361	9,021	10,083
Expected return on plan assets	(1,863)	(2,211)	(5,589)	(6,633)
Amortization of actuarial loss	174	151	522	453
Amortization of prior service (credit) costs	(70)	62	(210)	186
Amortization of transition obligation	19	20	57	60
Net periodic pension cost	$ 4,557	$ 5,223	$ 13,671	$ 15,669

Note 13 Borrowing Facilities

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.2 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 July 26, 2009. In May 2009, Applied amended certain terms of this credit agreement, including (i) replacing the funded-debt-to-adjusted-earnings ratio financial covenant with a minimum liquidity covenant and a funded-debt-to-total-capital ratio covenant and (ii) increasing the facility fee and applicable interest rate margins on advances. Remaining credit facilities in the amount of approximately $160 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 July 26, 2009.

Note 14 Income Taxes

Applied's effective income tax rate for the third quarter of fiscal 2009 was a benefit of 26.0 percent, and the income tax rate for the third quarter of fiscal 2008 was a provision of 32.1 percent. The tax provision for the third quarter of fiscal 2008 included $19 million of tax expense for certain corrections pertaining to tax items prior to fiscal 2008. The impact of the corrections recognized during the third quarter of fiscal 2008 was not considered material to the prior reporting periods.

During the second quarter of 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.

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 adjusts the interim effective income tax rate accordingly.

Note 15 Industry Segment Operations

Applied's four reportable segments are: Silicon, 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 July 26, 2009 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. 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 equity-based compensation and certain components of variable compensation, the global sales organization, corporate functions (certain management, finance, legal, human resources, marketing, 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. 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 segment includes semiconductor capital equipment for etch, rapid thermal processing, deposition, chemical mechanical planarization, and metrology and inspection.

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.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The Display segment encompasses products for manufacturing LCDs for TVs, personal computers and other video-enabled devices. The Display segment also includes the design and manufacture of differentiated stand-alone equipment for the Applied SunFab™ Thin Film Line.

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 July 26, 2009 and July 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
	(In thousands)		(In thousands)	
2009:				
Silicon	$ 497,679	$ 56,061	$ 1,303,921	$ (6,060)
Applied Global Services	342,427	23,929	1,006,836	48,127
Display	69,161	(4,815)	301,696	21,734
Energy and Environmental Solutions	224,473	(53,395)	874,760	(211,491)
Total Segment	$ 1,133,740	$ 21,780	$ 3,487,213	$ (147,690)
2008:				
Silicon	$ 755,592	$ 172,127	$ 3,260,729	$ 1,065,307
Applied Global Services	607,214	144,741	1,801,187	451,962
Display	310,944	103,049	641,707	196,745
Energy and Environmental Solutions	174,418	(85,152)	381,940	(204,168)
Total Segment	$ 1,848,168	$ 334,765	$ 6,085,563	$ 1,509,846

Reconciliations of total segment operating income to Applied's consolidated operating income (loss) for the three and nine months ended July 26, 2009 and July 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In thousands)		(In thousands)	
Total segment operating income (loss)	$ 21,780	$ 334,765	$ (147,690)	$ 1,509,846
Corporate and unallocated costs	(98,963)	(106,295)	(259,387)	(421,246)
Restructuring and asset impairment charges	—	(138)	(159,481)	(49,634)
Income (loss) from operations	$ (77,183)	$ 228,332	$ (566,558)	$ 1,038,966

Note 16 Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162" (SFAS 168). This standard establishes the FASB Accounting Standards Codification (Codification) as the single source of authoritative U.S. GAAP. The Codification does not create any new GAAP standards but incorporates existing accounting and reporting standards into a new topical structure. The Codification will be effective for Applied beginning in the fourth quarter of fiscal

2009 and existing references to authoritative standards will be replaced by new references set forth by the Codification.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (SFAS 167), which becomes effective the first annual reporting period after November 15, 2009 and will be effective for Applied in fiscal 2011. This Statement amends FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities — an interpretation of ARB No. 51," to require revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. Applied is evaluating the potential impact of the implementation of SFAS 167 on its consolidated financial statements.

In April 2009, the FASB issued FSP No. 141(R)-1 "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (FSP 141(R)-1). FSP 141(R)-1 will amend the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS No. 141(R), "Business Combinations" (SFAS 141(R)). FSP 141(R)-1 will carry forward the requirements in SFAS No. 141, "Business Combinations," for acquired contingencies, thereby requiring that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with SFAS No. 5, "Accounting for Contingencies,". FSP 141(R)-1 will have the same effective date as SFAS No. 141(R), and will therefore be effective for Applied in fiscal 2010. Applied expects that FSP 141(R)-1 will have an impact on its consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquired contingencies.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (FSP 132(R)-1). FSP 132(R)-1 amends FASB Statement No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits," to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The new disclosures are required to be included in financial statements for fiscal years ending after December 15, 2009. Applied is evaluating the impact of the implementation of FSP 132(R)-1 on its consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (revised), "Business Combinations" (SFAS 141(R)). The standard changes the accounting for business combinations, including the measurement of acquirer shares issued in 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. SFAS 141(R) will be effective for Applied in fiscal 2010, with early adoption prohibited. Applied expects that SFAS 141(R) will have an impact on its consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions it consummates after the effective date.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (SFAS 160). The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements, including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of "minority interest" accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS 160 will be effective for Applied in fiscal 2010, with early adoption prohibited. Applied is evaluating the potential impact of the implementation of SFAS 160 on its financial position and results of operations.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" (SFAS 159), which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This election is irrevocable. SFAS 159 became effective for Applied beginning with its 2009 fiscal year. Applied has not elected the fair value measurement option for its financial assets or liabilities that are not currently required to be measured at fair value.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP 157-1, “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13” (FSP 157-1) as well as FSP 157-2, “Effective Date of FASB Statement No. 157” (FSP 157-2). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date for Applied of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of Applied’s first quarter of fiscal 2010. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for Applied beginning in the first quarter of fiscal 2009. In October 2008, the FASB issued FSP 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active, and provides guidance on the key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. Applied adopted the effective portions of SFAS 157 beginning in the first quarter of fiscal 2009. See Note 4 for information and related disclosures regarding Applied’s fair value measurements.

Note 17 Subsequent Events Through September 1, 2009

During the fourth quarter of fiscal 2009, Applied received notice from the State of California stating that its examination of Applied’s returns for fiscal 2005 and 2004 had been settled. The settlement will result in a decrease to net unrecognized tax benefits of $9 million and reduce the effective tax rate for the fourth quarter of fiscal 2009.

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, 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 Technology™ 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, 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. Credit constraints in the financial markets and the weak global economy are compounding the impact of the highly cyclical markets in which Applied operates.

The following table presents certain significant measurements for the three and nine months ended July 26, 2009 and July 27, 2008:

	Three Months Ended			Nine Months Ended		
	July 26, 2009	July 27, 2008	% Change	July 26, 2009	July 27, 2008	% Change
	(In millions, except per share amounts and percentages)			(In millions, except per share amounts and percentages)		
New orders	$ 1,072	$ 2,030	(47)%	$ 2,624	$ 6,943	(62)%
Net sales	$ 1,134	$ 1,848	(39)%	$ 3,487	$ 6,086	(43)%
Gross margin	$ 325	$ 742	(56)%	$ 872	$ 2,644	(67)%
Gross margin percent	28.7%	40.2%	(12 points)	25.0%	43.4%	(18 points)
Net income (loss)	$ (55)	$ 165	(133)%	$ (443)	$ 730	(161)%
Earnings (loss) per share	$ (0.04)	$ 0.12	(134)%	$ (0.33)	$ 0.53	(163)%

Applied incurred net losses for the three and nine months ended July 26, 2009. Negative trends in consumer spending and pervasive economic uncertainty led some customers to significantly reduce factory operations and to reduce their spending during the first half of fiscal 2009, which severely impacted demand for manufacturing equipment and services. In the third quarter of fiscal 2009, demand for semiconductor and display equipment increased, but was still down significantly from fiscal 2008 levels. Net sales remained relatively flat across the first three quarters of fiscal 2009 and were also down significantly from fiscal 2008 levels. While Applied began to see positive trends in its business in the third quarter of fiscal 2009, a meaningful improvement in the equipment sector will depend on a sustainable recovery in customers' end markets to support factories running at higher utilization and to encourage customers' investments in new capacity, as well as advanced technologies. In this uncertain macroeconomic and industry climate, Applied's ability to forecast customer demand and the Company's future performance is limited. Applied currently anticipates that orders and net sales will increase in the fourth quarter of fiscal 2009 from the third quarter of fiscal 2009 but will be lower overall for the full fiscal year as compared to fiscal 2008.

Results of Operations

Applied received new orders of $1.1 billion for the third quarter of fiscal 2009, down 47 percent from the third quarter of fiscal 2008. The decrease in new orders was across all segments and reflected the challenging economic and industry conditions. New orders of $2.6 billion for the first nine months of fiscal 2009 were down 62 percent from the first nine months of fiscal 2008. The decrease was primarily attributable to reduced demand for equipment and services from semiconductor customers and decreased demand for LCD equipment.

New orders by geographic region (determined by the location of customers' facilities) for the three and nine months ended July 26, 2009 and July 27, 2008 were as follows:

	Three Months Ended				Nine Months Ended			
	July 26, 2009		July 27, 2008		July 26, 2009		July 27, 2008	
	($)	(%)	($)	(%)	($)	(%)	($)	(%)
	(In millions, except percentages)							
Southeast Asia and China	269	25	338	17	435	17	1,047	15
Taiwan	261	24	203	10	407	15	1,536	22
Japan	151	14	425	21	407	15	1,022	15
North America(*)	147	14	393	19	511	20	1,189	17
Europe	130	12	319	16	601	23	897	13
Korea	114	11	352	17	263	10	1,252	18
Total	1,072	100	2,030	100	2,624	100	6,943	100

* Primarily the United States.

Applied's backlog for the most recent three fiscal quarters was as follows: $3.0 billion at July 26, 2009, $3.2 billion at April 26, 2009, and $4.1 billion at January 25, 2009. Backlog decreased 6 percent for the third quarter of fiscal 2009 compared to the second quarter of fiscal 2009, primarily due to customer cancellations which totaled $146 million. Backlog consists of: (1) orders for which written authorizations have been accepted and assigned shipment dates are within the next 12 months, or shipment has occurred but revenue has not been recognized; (2) contractual service revenue and maintenance fees to be earned within the next 12 months; and (3) orders for SunFab™ thin film solar production lines that are anticipated to be recognized as revenue within the next 12 months. Due to the potential for customer changes in delivery schedules and order cancellations, Applied's backlog at any particular time is not necessarily indicative of actual sales for any future periods.

Net sales of $1.1 billion for the third quarter of fiscal 2009 decreased 39 percent from the third quarter of fiscal 2008 due to decreased demand for semiconductor equipment and services, partially offset by increased sales of solar manufacturing equipment. Net sales of $3.5 billion for the first nine months of fiscal 2009 decreased 43 percent from the first nine months of fiscal 2008. Net sales for the first nine months of fiscal 2009 reflected significantly lower sales of equipment and services to semiconductor and display customers, partially offset by increased sales of solar manufacturing equipment.

Net sales by geographic region (determined by the location of customers' facilities) for the three and nine months ended July 26, 2009 and July 27, 2008 were as follows:

	Three Months Ended				Nine Months Ended			
	July 26, 2009		July 27, 2008		July 26, 2009		July 27, 2008	
	($)	(%)	($)	(%)	($)	(%)	($)	(%)
	(In millions, except percentages)							
Taiwan	393	35	316	17	699	20	1,451	24
Europe	174	15	204	11	603	17	585	10
Southeast Asia and China	169	15	442	24	539	16	1,020	17
North America(*)	139	12	276	15	733	21	1,106	18
Japan	130	12	262	14	501	14	943	15
Korea	129	11	348	19	412	12	981	16
Total	1,134	100	1,848	100	3,487	100	6,086	100

* Primarily the United States.

Gross margin was 28.7 percent for the third quarter of fiscal 2009, down from 40.2 percent for the third quarter of fiscal 2008. Gross margin was 25.0 percent for the first nine months of fiscal 2009, down from 43.4 percent for the first nine months of fiscal 2008. The decrease in the gross margin percentage for the three and nine months ended July 26, 2009 was due to lower net sales, lower-margin product mix, and reduced factory absorption, offset in part by cost control initiatives. The decrease in gross margin percentage for the nine months ended July 26, 2009 was also due to inventory-related charges of $67 million resulting from lower than anticipated demand. Gross margin during the third quarter of both fiscal 2009 and 2008 included $9 million of equity-based compensation expense. Gross margin during the first nine months of both fiscal 2009 and 2008 included $23 million of equity-based compensation expense.

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 $402 million for the third quarter of fiscal 2009, down from $514 million for the third quarter of fiscal 2008. RD&E and M&S expenses decreased 18 percent to $314 million for the third quarter of fiscal 2009. G&A expenses decreased 32 percent to $88 million for the third quarter of fiscal 2009. The decrease in RD&E, M&S and G&A for the third quarter of fiscal 2009 was due to cost control initiatives, including headcount reductions, multi-week shutdowns and lower controllable spending.

Expenses related to RD&E, M&S and G&A totaled $1.3 billion for the first nine months of fiscal 2009 compared to $1.6 billion for the first nine months of fiscal 2008. RD&E and M&S expenses decreased 20 percent to $948 million for the first nine months of fiscal 2009 due to cost control initiatives. G&A expenses decreased 10 percent to $331 million for the first nine months of fiscal 2009, primarily due to cost control initiatives, partially offset by a bad debt provision of $63 million.

Operating expenses for the first nine months of fiscal 2009 included restructuring charges of $145 million, primarily associated with the restructuring program announced on November 12, 2008, and asset impairment charges of $15 million related to certain fixed assets to be sold. Operating expenses for the first nine months of fiscal 2008 included restructuring charges of $50 million, principally associated with a global cost reduction plan and ceasing development of beamline implant products. (See Note 10 of Notes to Consolidated Condensed Financial Statements.)

During the three months ended July 26, 2009 Applied recognized $2 million in impairment charges associated with certain strategic investments. During the first nine months of fiscal 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 $5 million for the third quarter of fiscal 2009, down from $21 million for the third quarter of fiscal 2008. Net interest income was $21 million for the first nine months of fiscal 2009, down from $73 million for the first nine months of fiscal 2008. Lower net interest income for the three and nine months ended July 26, 2009 was primarily due to a reduction in the average short term investment balance, a decrease in interest rates, and an increase in net realized losses.

Applied's effective income tax rate for the third quarter of fiscal 2009 was a benefit of 26.0 percent as compared to a provision of 32.1 percent for the third quarter of fiscal 2008. Applied's effective income tax rate for the first nine months of fiscal 2009 was a benefit of 32.8 percent as compared to a provision of 32.8 percent for the first nine months of fiscal 2008. The change in the fiscal 2009 tax rate from the fiscal 2008 rate was principally attributable to the net loss before taxes incurred in fiscal 2009. 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 effective income tax rate accordingly.

Segment Information

Applied reports financial results in four segments: Silicon, 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 those for equity-based compensation and certain components of variable compensation, the global sales organization, corporate functions (certain management, finance, legal, human resources, marketing, and RD&E), and unabsorbed information technology and occupancy. Applied also does not allocate to its reportable segments restructuring and asset impairment charges or costs related to restructuring actions.

The results for each reportable segment are discussed below.

Silicon Segment

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

	Three Months Ended		Nine Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In millions)		(In millions)	
New orders	$ 542	$ 793	$ 1,047	$ 2,929
Net sales	498	756	1,304	3,261
Operating income (loss)	56	172	(6)	1,065

New orders were down 32 percent to $542 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008, and decreased 64 percent to $1.0 billion for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decline in orders for the three and nine months ended July 26, 2009 reflected lower demand, primarily from memory customers.

Net sales decreased 34 percent to $498 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008, and decreased 60 percent to $1.3 billion for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decrease in net sales for the three and nine months ended July 26, 2009 was due to decreased investments, primarily by memory customers.

Operating income decreased 67 percent to $56 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008. For the first nine months of fiscal 2009, the Silicon segment reported an operating loss of $6 million compared to operating income of $1.1 billion for the first nine months of fiscal 2008. The decrease in operating income for the three and nine months ended July 26, 2009 was due to significantly lower sales resulting in lower factory absorption, partially offset by lower operating expenses from cost control initiatives. Operating income for the first nine months of fiscal 2009 also included an increase in bad debt expense.

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	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In millions)		(In millions)	
New orders	$ 298	$ 541	$ 844	$ 1,753
Net sales	343	607	1,007	1,801
Operating income	24	145	48	452

New orders decreased 45 percent to $298 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008, and decreased 52 percent to $844 million for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decline in orders for the three and nine months ended July 26, 2009 was primarily due to decreased demand for spares and refurbished equipment reflecting semiconductor manufacturers' lower wafer production volumes.

Net sales decreased 44 percent to $343 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008, and similarly decreased 44 percent to $1.0 billion for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decrease in net sales for the three and nine months ended July 26, 2009 reflected lower sales of spares and refurbished equipment.

Operating income decreased 83 percent to $24 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008. Operating income decreased 89 percent to $48 million for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decrease in operating income for the three and nine months ended July 26, 2009 reflected lower sales volumes resulting in lower infrastructure cost absorption, partially offset by lower operating expenses from cost control initiatives. Operating income for the first nine months of fiscal 2009 also included an increase in bad debt expense.

Display Segment

The Display segment encompasses products for manufacturing LCDs for TVs, personal computers and other video-enabled devices. The business is focused on growth 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	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In millions)		(In millions)	
New orders	$ 96	$ 374	$ 135	$ 1,422
Net sales	69	311	302	642
Operating income (loss)	(5)	103	22	197

New orders decreased 74 percent to $96 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008, and decreased 91 percent to $135 million for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decline in orders for the three and nine months ended July 26, 2009 reflected the slowdown in the display industry from comparable 2008 periods when display manufacturers added capacity.

Net sales decreased 78 percent to $69 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008, and decreased 53 percent to $302 million for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decrease in net sales for the three and nine months ended July 26, 2009 reflected lower orders.

The Display segment reported an operating loss of $5 million for the third quarter of fiscal 2009 compared to operating income of $103 million for the third quarter of fiscal 2008. Operating income decreased 89 percent to $22 million for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decrease in operating income for the three and nine months ended July 26, 2009 was due to significantly lower revenue, partially offset by lower operating expenses due to cost control initiatives.

Energy and Environmental Solutions Segment

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

	Three Months Ended		Nine Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In millions)		(In millions)	
New orders	$ 136	$ 322	$ 598	$ 839
Net sales	224	174	874	382
Operating income (loss)	(53)	(85)	(211)	(204)

New orders decreased 58 percent to $136 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008, and decreased 29 percent to $598 million for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The decline in orders for the three and nine months ended July 26, 2009 was primarily due to decreased demand from SunFab customers and reflected the challenging global economic environment and solar manufacturers' difficulties in obtaining affordable capital.

Net sales increased 29 percent to $224 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008, and more than doubled to $874 million for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. The increase in net sales for the three and nine months ended July 26, 2009 reflected an increase in sales recognized for SunFab and c-Si products. During the third quarter of fiscal 2009, Applied recognized revenue on its sixth SunFab thin film production line.

The operating loss in the Energy and Environmental Solutions segment decreased 38 percent to $53 million for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008 due to higher net sales, partially offset by increased RD&E expenses. The operating loss increased 3 percent to $211 million for the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. While net sales increased in the first nine months of fiscal 2009, the segment reported a higher operating loss due to increased RD&E expenses and unfavorable gross margins associated with initial SunFab line start-ups, offset in part by cost control initiatives.

Financial Condition, Liquidity and Capital Resources

During the nine months ended July 26, 2009, cash, cash equivalents and investments decreased by $339 million, from $3.5 billion as of October 26, 2008 compared to $3.1 billion as of July 26, 2009.

Cash, cash equivalents and investments consisted of the following:

	July 26, 2009	October 26, 2008
	(In millions)	
Cash and cash equivalents	$ 1,556	$ 1,412
Short-term investments	583	689
Long-term investments	990	1,367
Total cash, cash equivalents and investments	$ 3,129	$ 3,468

Applied generated $93 million of cash from operating activities for the nine months ended July 26, 2009, mainly due to collection of accounts receivable and a reduction in inventories, which was offset in part by the net loss incurred. The net loss was offset by the effect of non-cash charges, including depreciation, amortization, restructuring and asset impairments, equity-based compensation, impairment of equity method investment and strategic investments, and provision for bad debts. Applied sold accounts receivable and discounted certain letters of credit totaling $179 million for the nine months ended July 26, 2009. 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 further details regarding discounting of letters of credit, see Note 5 of Notes to Consolidated Condensed Financial Statements. Days sales outstanding for the third quarter of fiscal 2009 decreased to 68 days, compared to 82 days in the second quarter of fiscal 2009, primarily due to collection efficiencies.

Applied generated $284 million of cash from investing activities during the nine months ended July 26, 2009. Proceeds from sales and maturities of investments, net of purchases of investments, totaled $472 million. Capital expenditures were $188 million for the nine months ended July 26, 2009 and included investment in the implementation of a global business software system.

Applied used $233 million of cash for financing activities during the nine months ended July 26, 2009, consisting primarily of $240 million in cash dividends paid to stockholders and $23 million in common stock repurchases, offset by $29 million of cash generated from the issuance of common stock pursuant to Applied's equity compensation programs. Since November 2008, Applied has temporarily suspended stock repurchases in order to maintain financial flexibility in light of uncertain global economic and market conditions.

In each of the first three quarters of fiscal 2009, Applied's Board of Directors has declared a quarterly cash dividend in the amount of $0.06 per share. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration and amount 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 $1.2 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 at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at July 26, 2009. In May 2009, Applied amended certain terms of this credit agreement, including (i) replacing the funded-debt-to-adjusted-earnings ratio financial covenant with a minimum liquidity covenant and a funded-debt-to-total-capital ratio covenant and (ii) increasing the facility fee and applicable interest rate margins on advances. Remaining credit facilities in the amount of approximately $160 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 July 26, 2009.

In 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 July 26, 2009, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was $96 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 expects that changes in its business will affect its working capital components, primarily related to its Energy and Environmental Solutions segment, which includes products for manufacturing solar PVs. Applied has entered into contracts with multiple customers for its SunFab Thin Film Line for projects of varying scale. Fulfillment of these contracts requires Applied to invest in inventory, particularly work in process, which investment may be offset by customer deposits. Changes in these contracts may result in inventory charges if Applied determines the inventory to be in excess of anticipated demand.

Applied's investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, municipal bonds, corporate bonds and, to a lesser extent, 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 July 26, 2009, as part of its regular investment review process, Applied recorded impairment charges of $79 million associated with its equity method investment in Sokudo and other strategic investments. At July 26, 2009, Applied had a gross unrealized loss of $6 million due to a decrease in the fair value of certain fixed income securities primarily as a result of the continuing turmoil in the global financial markets. 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. The following types of financial instruments may present additional risks arising from liquidity and/or credit concerns: structured investment vehicles, auction rate securities, sub-prime and "Alt-A" mortgage-backed securities, and collateralized debt obligations. At July 26, 2009, Applied's holdings in these categories of investments totaled $10 million, or less than 1% of total cash, cash equivalents and investments, which Applied does not consider to be material. In the event that these categories of investments become illiquid, Applied does not believe that this will materially affect its liquidity or results of operations.

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

Applied's cash requirements fluctuate based on the timing and extent of factors such as those discussed above and in Part II, Item 1A, "Risk Factors." Applied's management believes that cash generated from operations, together with the liquidity provided by existing cash balances and borrowing capability, will be sufficient to satisfy Applied's liquidity requirements for the next 12 months. For further details regarding Applied's operating, investing and financing activities, see the Consolidated Condensed Statements of Cash Flows in this report.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States 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:

Warranty Costs

Applied provides for the estimated cost of warranty when revenue is recognized. Estimated warranty costs are determined by analyzing specific product 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 write down the asset to its realizable value. The fair value of a reporting unit is estimated using both the income approach and the market approach. 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.

Equity-Based Compensation — Employee Stock Option Plans and Employee Stock Purchase Plans

The fair value of stock options and Employee Stock Purchase Plan shares is estimated using a Black-Scholes option valuation model. This methodology requires the use of subjective assumptions including expected stock price volatility and the estimated life of each award. The fair value of equity-based compensation awards less the estimated forfeitures is amortized over the service period of the award, and Applied has elected to use the straight-line method. The fair value of restricted stock units is calculated based upon the fair market value of Applied common stock at the date of grant. (See Note 1 of Notes to Consolidated Condensed Financial Statements.)

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

Applied's investment portfolio includes fixed-income securities with a fair value of approximately $1.7 billion at July 26, 2009. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at July 26, 2009, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $20 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. For further details, see Note 4 and Note 11 of Notes to Consolidated Condensed Financial Statements.

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 2008 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 requirements and spending, which depend in part on customers’ capacity utilization, production volumes, end-use demand, inventory levels relative to demand, and 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 effectively manage its resources and production capacity for each of its segments as well as across multiple segments. The challenging economic and industry conditions have adversely affected Applied’s customers and led to a significant decrease in demand for many of Applied’s products, although indications of improving conditions are beginning to appear. During periods of decreasing demand for Applied’s products, Applied must be able to appropriately align its cost structure with prevailing market conditions; effectively manage its supply chain; and motivate and retain key employees. During periods of increasing demand, Applied must have sufficient manufacturing capacity and inventory to meet customer demand; effectively manage its supply chain; and attract, retain and motivate a sufficient number of qualified individuals. If Applied is not able to 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 ongoing financial crisis and weakening global economy.

The tightening of the credit markets, turmoil in the financial markets, and weakening global economy experienced over the last several quarters contributed to significant slowdowns in the industries in which Applied operates, which slowdowns may worsen if these economic conditions are prolonged or deteriorate further. 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 and uncertain market conditions may also lead to the inability of some customers to obtain affordable financing and to customer insolvencies, resulting in 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. 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.

Further, these adverse conditions and uncertainty about future economic and industry conditions make it 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 and that also includes some exposure to asset-backed and mortgage-backed securities. The risks to Applied’s investment portfolio may be exacerbated by deteriorating financial market conditions and, as a result, the value and liquidity of the investment portfolio could be negatively impacted and lead to impairment charges. If Applied is not able to timely and appropriately adapt to changes resulting from the difficult 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 importance of reducing the total cost of manufacturing system ownership, due in part to demand for lower-cost consumer electronics;
- fluctuating levels of 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;
- increased need to develop 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. Accordingly, adverse changes in the semiconductor industry that result in decreased spending by customers may negatively impact the Company's financial condition and results of operations. Furthermore, 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, which include:

- 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 memory (including NAND flash and DRAM), logic and foundry;
- the increasing cost and complexity for semiconductor manufacturers to move volume manufacturing to more technically advanced capability and smaller linewidths, and the resulting impact on the rates of technology transition and investment in capital equipment;
- semiconductor manufacturers' increasing adoption of more productive 300mm systems rather than 200mm systems;
- the decreasing profitability of many semiconductor manufacturers, causing them to enter into collaboration or cost-sharing arrangements with other manufacturers, outsource manufacturing activities, focus only on specific markets or applications, and/or purchase less manufacturing equipment, which puts downward pressure on sales prices for, and the rate of investment in, capital equipment;
- technology developments in related markets, such as lithography, to which Applied may need to adapt;
- the increasing market fragmentation for semiconductors, leading certain markets to become too small to support the cost of a new fabrication plant; and
- the cost, technical complexity and timing of a proposed transition from 300 mm to 450 mm 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. These include technical and financial difficulties associated with transitioning to larger substrate sizes for LCDs, and the effect of a slowing rate of transition to larger substrate sizes on capital intensity and product differentiation. 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 and performance of solar PV technology compared to the cost of electricity from the existing grid or other energy sources;
- the critical role played by energy policies of governments around the world in influencing the rate of growth of the solar market including the availability and amount of government incentives for solar power such as tax credits, rebates, renewable portfolio standards that require electricity providers to sell a targeted amount of energy from renewable sources, and goals for solar installations on government facilities;
- the extent of investment or participation in the solar market by utilities that generate, transmit or distribute power to end-users;

- evolving industry standards, such as a standard form factor for thin film solar modules;
- 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;
- regulatory and third party certification requirements, and customers' ability to timely satisfy such requirements;
- access to affordable financing and capital by customers and end-users; and
- increasingly greater factory output and scalability of solar PVs.

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 success is subject to many risks, including but not limited to its ability to 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
- accomplish the simultaneous start-up of multiple integrated thin film solar production lines.

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, such as the supply of an integrated production line consisting of a suite of Applied and non-Applied equipment to manufacture solar PVs;
- 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 2009, 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 China. 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;
- changes in political and social attitudes, laws, rules, regulations and policies to favor domestic companies over non-domestic companies;
- variations among, and changes in, local, regional, national or international laws and regulations (including 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;
- variations in protection of intellectual property and other legal rights;
- positions taken by U.S. governmental agencies regarding possible national commercial and/or security issues posed by international business operations;
- fluctuating raw material and energy costs;
- 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;
- 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 differences;
- customer- or government-supported efforts to promote the development and growth of local competitors;
- shipping costs and/or delays;
- 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 cells in the developing economies of certain countries.

Many of these challenges are present in China, which is experiencing significant growth of both suppliers and competitors to Applied, and which Applied believes presents a large potential market for its products and opportunity for growth over the long term. In addition, Applied must regularly reassess the size, capability and location of its global infrastructure and make appropriate changes. Applied must also 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 industry conditions. These conditions are also adversely affecting customers' profitability and access to capital, which leads to lower R&D funding and capital expenditures. In addition, certain 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. In the solar area, while the number of solar PV manufacturing customers increases as the number of market entrants grows, the size of contracts with particular customers is expected to rise substantially as the industry moves to greater solar module factory output capacity. The ongoing adverse conditions in the credit and financial markets and industry slowdowns have caused, and may continue to cause, some customers to postpone delivery, reduce or cancel orders, exit businesses, merge with other manufacturers or file for bankruptcy protection and potentially cease operations. In this environment, contracts or orders from a relatively limited number of semiconductor, display and solar manufacturers have accounted for, and are expected to continue to account for, a substantial portion of Applied's business. 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. In addition, certain customers have undergone significant ownership and/or management changes, outsourced manufacturing activities, engaged in collaboration or cooperation arrangements with other customers, or consolidated with other customers, each of which may result in additional complexities in managing customer relationships and transactions, as well as cancelled or decreased orders and lower net sales. These factors could have a material adverse effect on 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;
- exposure to operational risks, rules and regulations to the extent such activities are located in countries where Applied has not historically conducted business;
- challenges associated with managing larger, more diverse and more widespread operations;
- inability to obtain and protect intellectual property rights in key technologies;
- inadequacy or ineffectiveness of an acquired company's internal controls;
- impairment of acquired intangible assets as a result of technological advancements or worse-than-expected performance of the acquired company or its product offerings;
- 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 the acquired companies.

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.

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 ability to timely supply 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. Further, the ongoing adverse conditions in the credit and financial markets and industry slowdowns have caused, and may continue to cause, some suppliers to scale back operations, exit businesses, merge with other companies, or file for bankruptcy protection and possibly cease operations, potentially affecting Applied's ability to obtain parts. 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 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. The volatility of demand for capital equipment increases capital, technical and other risks for companies in the supply chain. Any or all of these factors could materially and adversely affect Applied's business, financial condition and results of operations.

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 and other operations in regions outside the United States, particularly India and China, and outsources certain functions to third parties, including companies in the United States, India, China and other countries. Outsourced functions include certain 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. In addition, Applied has implemented several key operational initiatives intended to improve manufacturing efficiency, including integrate-to-order, module-final-test and merge-in-transit programs. 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.

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 implementing a new ERP system or 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.

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, unpaid shutdowns and salary reductions), and the effectiveness of Applied's compensation 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.

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. 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 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, employment and other matters. In addition, Applied 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. These legal proceedings and claims, whether with or without merit, may be time-consuming and expensive to prosecute or defend, divert management's attention and resources, and/or inhibit Applied's ability to sell its products. There can be no assurance regarding the outcome of current or future legal proceedings or claims. Applied previously entered into a mutual covenant-not-to-sue 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 such a covenant. In addition, 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. If Applied is not able to obtain or enforce intellectual property rights, resolve or settle claims, 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.

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 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***

None.

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

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

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
10.68	Applied Materials, Inc. Stock Purchase Plan for Offshore Employees, amended and restated effective as of June 8, 2009 (incorporated by reference to Applied's Registration Statement on Form S-8 (file no. 333-160819) filed July 27, 2009)
10.69	Applied Materials, Inc. Employees' Stock Purchase Plan, amended and restated effective as of June 8, 2009 (incorporated by reference to Applied's Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (file no. 333-143377) filed July 27, 2009)
10.70	Applied Materials, Inc. Employees' Stock Purchase Plan, amended and restated effective as of September 1, 2009 (incorporated by reference to Applied's Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (file no. 333-143377) filed July 27, 2009)
10.71	Amendment No. 1 to the U.S. $1,000,000,000 Credit Agreement dated as of May 22, 2009 among Applied Materials, Inc., as borrower, several lenders named therein and Citicorp USA, Inc., as agent for the lenders. (Confidential treatment has been requested for redacted portions of the agreement.)
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

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
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

September 1, 2009

By: /s/ YVONNE WEATHERFORD

Yvonne Weatherford
Corporate Vice President,
Corporate Controller
(Principal Accounting Officer)

September 1, 2009

Exhibit 10.71

EXECUTION COPY

**AMENDMENT NO. 1 TO THE
CREDIT AGREEMENT**

Dated as of May 22, 2009

AMENDMENT NO. 1 TO THE CREDIT AGREEMENT among APPLIED MATERIALS, INC., a Delaware corporation (the "Borrower"), the banks, financial institutions and other institutional lenders parties to the Credit Agreement referred to below (collectively, the "Lenders") and Citicorp USA, Inc., as agent (the "Agent") for the Lenders.

PRELIMINARY STATEMENTS:

(1) The Borrower, the Lenders and the Agent have entered into a Credit Agreement dated as of January 26, 2007 (the "Credit Agreement"). Capitalized terms not otherwise defined in this Amendment have the same meanings as specified in the Credit Agreement.

(2) The Borrower and the Required Lenders have agreed to amend the Credit Agreement as hereinafter set forth.

SECTION 1. Amendments to Credit Agreement. The Credit Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 2, hereby amended as follows:

(a) Section 1.01 of the Credit Agreement is hereby amended by deleting the definitions of "Applicable Margin", "Applicable Percentage", "Base Rate" and "Public Debt Rating" in their entirety and substituting in lieu thereof the following:

"Applicable Margin" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin for Base Rate Advances	Applicable Margin for Eurodollar Rate Advances
Level 1 A+/A1 or above	***	***
Level 2 A/A2	***	***
Level 3 A-/A3	***	***
Level 4 BBB+/Baa1	***	***
Level 5 Lower than Level 4 or unrated	***	***

*** INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

"Applicable Percentage" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Percentage
Level 1 A+/A1 or above	***
Level 2 A/A2	***
Level 3 A-/A3	***
Level 4 BBB+/Baa1	***
Level 5 Lower than Level 4 or unrated	***

"Base Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate;

(b) $^1/_2$ of one percent per annum above the Federal Funds Rate; and

(c) the British Bankers Association Interest Settlement Rate applicable to Dollars for a period of one month ("One Month LIBOR") plus 1.00% (for the avoidance of doubt, the One Month LIBOR for any day shall be based on the rate appearing on Reuters LIBOR01 Page (or other commercially available source providing such quotations as designated by the Agent from time to time) at approximately 11:00 a.m. London time on such day).

"Public Debt Rating" means, as of any date for S&P, the lowest rating that has been most recently announced by S&P for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower and, as of any date for Moody's, the lowest rating that has been most recently announced by Moody's for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage shall be determined by reference to the available rating; (b) if neither S&P nor Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage will be set in accordance with Level 5 under the definition of "Applicable Margin" or "Applicable Percentage", as the case may be; (c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin and the Applicable Percentage shall be based upon the higher rating unless the such ratings differ by two or more levels, in which case the applicable

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level will be deemed to be one level above the lower of such levels; (d) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

(b) Section 1.01 of the Credit Agreement is hereby amended by deleting the definition "Applicable Utilization Fee" in its entirety.

(c) Section 1.01 is amended by adding the following definitions in appropriate alphabetical order:

"Affected Lender" means any Lender that (a) is a Defaulting Lender, (b) has otherwise failed to pay over to the Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute or unless such failure has been cured, or (c) is (or whose parent company is) in bankruptcy or insolvency proceedings, has had a receiver, conservator, trustee or custodian appointed for it, or has taken any corporate action authorizing, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

"Defaulted Advance" means any Advance that a Defaulting Lender has failed to make.

"Defaulting Lender" means any Lender that (i) failed to fund any portion of its Advances within three Business Days of the date required to be funded by it hereunder, (ii) notified the Borrower, the Agent, or any Lender in writing that it does not intend to fund any of its Commitments, (iii) has made a public statement or announcement to the effect that it does not intend to fund or honor its commitments under agreements in which it has committed to extend credit or (iv) failed, within three Business Days after request by the Agent, to confirm it will comply with the terms of this Agreement relating to its obligations to fund prospective Advances.

(d) Section 2.04 is hereby amended by adding the words "(a) Optional Ratable Termination or Reduction" immediately preceding the first sentence contained therein and adding the following new subclause (b) immediately after the end of the last sentence therein:

(b) Non-Ratable Reduction. The Borrower, at its sole discretion, shall have the right, but not the obligation, at any time so long as no Event of Default has occurred and is continuing, upon at least ten Business Days' notice to an Affected Lender (with a copy to the Agent), to terminate in whole such Affected Lender's Commitment. Such termination shall be effective with respect to such Affected Lender's Unused Commitment on the date set forth in such notice, provided, however, that such date shall be no earlier than ten Business Days after receipt of such notice. Upon termination of a Lender's Commitment under this Section 2.04(b), the Borrower will pay all principal of, and interest accrued to the date of such payment on, Advances owing to such Affected Lender and pay any accrued fees payable to such Affected Lender pursuant to the provisions of Section 2.03, and all other amounts payable to such Affected Lender hereunder (including, but not limited to, any increased costs or other amounts owing under Section 2.10, any indemnification for taxes under Section 2.13, and any compensation payments due as provided in Section 8.04); and upon such payments, the obligations of such Affected Lender hereunder shall, by the provisions hereof, be released and discharged; provided, however, that (i) such Affected Lender's rights under Sections 2.10, 2.13 and 8.04, and its obligations under Sections 7.05 and 8.08 shall survive such release and discharge as to matters occurring prior to such date; and (ii) no claim that the Borrower may have against such Affected Lender arising out of such Affected Lender's default hereunder shall be released or impaired in any way. The aggregate amount of the Commitments of the Lenders once reduced pursuant to this Section 2.04(b) may not be reinstated; provided further, however, that if pursuant to this Section 2.04(b), the Borrowers shall pay to an Affected Lender any principal of, or interest accrued on, the Advances owing to such Affected Lender, then the Borrower shall either (x) confirm to the Agent that the conditions set forth in Section 3.02 are met on and as of such date of payment or (y) pay or cause to be paid a ratable payment of principal and interest to all Lenders who are not Affected Lenders.

(e) Section 2.06(a) is amended by deleting the phase "plus (z) the Applicable Utilization Fee in effect from time to time" in each of the places such phrase appears.

(f) Article II is hereby amended by inserting at the end thereof the following new Section 2.19:

SECTION 2.19 Defaulting Lenders. Anything contained herein to the contrary notwithstanding, (a) to the extent permitted by applicable law, any prepayment of the Advances shall, if the Borrower so directs at the time of making such prepayment, be applied to the Advances of Lenders other than any Defaulting Lender as if such Defaulting Lender had no Advances outstanding; and (b) the aggregate amount of the Advances as at any date of determination shall be calculated as if such Defaulting Lender had funded all Defaulted Advances of such Defaulting Lender for purposes of determining the aggregate amount of the total Commitments available to be drawn by the Borrower.

No Commitment of any Lender shall be increased or otherwise affected, and, except as otherwise expressly provided in this Section 2.19, performance by any Borrower or any Lender of its obligations hereunder shall not be excused or otherwise modified as a result of any failure by a Defaulting Lender to fund or the operation of this Section 2.19. The rights and remedies against a Defaulting Lender under this Section 2.19 are in addition to other rights and remedies that the Borrower, the Agent or any other Lender may have against such Defaulting Lender with respect to any Defaulted Advance.

(g) Section 4.01(d) is hereby amended (i) by replacing the date "October 29, 2006" with the date "October 26, 2008" in both places such date appears and (ii) by replacing the phrase "2006 Form 10-K" with the phrase "2008 Form 10-K".

(h) Section 4.01(e) is hereby amended by replacing the phrase "2006 Form 10-K" with the phrase "2008 Form 10-K".

(i) Section 5.03 is amended in full to read as follows:

SECTION 5.03. Financial Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Borrower will:

(a) Debt/Capital Ratio. Maintain, as of the last day of each fiscal quarter, a ratio of Consolidated Funded Debt to the sum of Consolidated Funded Debt plus Consolidated shareholders' equity of not greater than ***.

(b) Maintenance of Cash and Investments. Maintain, as of last day of each fiscal quarter and on the date of any Borrowing, an aggregate Consolidated balance of unrestricted and unencumbered cash, cash equivalents and short and long-term investments minus the aggregate principal amount of the Advances outstanding on such date in an amount of not less than ***; provided that not less than *** of such unrestricted and unencumbered cash, cash equivalents and short and long-term investments shall be maintained by the Borrower and its wholly-owned U.S. Subsidiaries; provided further that for purposes of the foregoing calculations of long-term investments, such investments shall not include any non-public private equity investments.

(j) Section 8.07(a) is amended by adding immediately after the phrase "under Section 2.13" the phrase "or such Lender becoming an Affected Lender".

SECTION 2. Conditions of Effectiveness. This Amendment shall become effective as of the date first above written when, and only when, the Agent shall have received counterparts of this Amendment executed by the Borrower and the Required Lenders and the Agent shall have additionally received all of the following documents, each such document (unless otherwise specified) dated the date of receipt thereof by the Agent (unless otherwise specified) and in sufficient copies for each Lender, in form and substance satisfactory to the Required Lenders (unless otherwise specified) and in sufficient copies for each Lender:

(a) Certified copies of the general resolutions of the Board of Directors of the Borrower which authorize the Borrower to enter into this Amendment, the Credit Agreement as amended hereby and the matters contemplated hereby and thereby and all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Amendment, the Credit Agreement and the matters contemplated hereby and thereby.

(b) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Amendment and the other documents to be delivered hereunder and thereunder.

(c) A favorable opinion of Vice President, Legal Services of the Borrower and of Orrick, Herrington & Sutcliffe LLP, in substantially the forms of Exhibit A and Exhibit B, respectively, hereto and as to such other matters as any Lender through the Agent may reasonably request.

(d) A certificate signed by a duly authorized officer of the Borrower stating that:

(i) The representations and warranties contained in Section 3 of this Amendment, and in Section 4.01 of the Credit Agreement, as amended hereby, are correct on and as of the date of such certificate as though made on and as of such date; and

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*** INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

(ii) No event has occurred and is continuing that constitutes a Default.

SECTION 3. Representations and Warranties of the Borrower The Borrower represents and warrants as follows:

(a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation.

(b) The execution, delivery and performance by the Borrower of this Amendment and the Credit Agreement, as amended hereby, and the consummation of the transactions contemplated hereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene or constitute a default under (i) the certificate of incorporation or by-laws of the Borrower, (ii) any agreement that purports to affect the Borrower's ability to borrow money or the Borrower's obligations under the Agreement, as amended hereby, or any judgment, injunction, order or decree binding upon the Borrower or any of its Subsidiaries, (iii) any provision of material applicable law or regulation or result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries not otherwise permitted by Section 5.02(a) of the Credit Agreement.

(c) This Amendment has been duly executed and delivered by the Borrower. This Amendment and the Credit Agreement, as amended hereby, each constitutes a valid and binding agreement of the Borrower enforceable in accordance with its terms, except as limited by (i) bankruptcy, insolvency or similar laws affecting creditors' rights generally and (ii) general principles of equity.

(d) There is no action, suit or proceeding pending against, or to the knowledge of the Borrower any investigation, action, suit or proceeding threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official which in any manner draws into question the validity of this Amendment or the Credit Agreement, as amended hereby.

SECTION 4. Reference to and Effect on the Credit Agreement and the Notes. (a) On and after the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the Notes to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

(b) The Credit Agreement and the Notes, as specifically amended by this Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Agent under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement.

SECTION 5. Costs and Expenses The Borrower agrees to pay on demand all costs and expenses of the Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and the other instruments and documents to be delivered hereunder (including, without limitation, the reasonable fees and expenses of counsel for the Agent) in accordance with the terms of Section 8.04 of the Credit Agreement.

SECTION 6. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 7. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

APPLIED MATERIALS, INC.

By /s/ Robert Friess
Title: Treasurer

CITICORP USA, INC.,
as Agent and as a Lender

By /s/ Kevin Ege
Title: Vice President

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., SEATTLE BRANCH

By /s/ Victor Pierzchalski
Title: Authorized Signatory

JPMORGAN CHASE BANK, N.A.

By /s/ Sharon Bazbaz
Title: Vice President

KEYBANK NATIONAL ASSOCIATION

By /s/ Raed Y. Alfayoumi
Title: Vice President

BANK OF AMERICA, N.A.

By /s/ Kevin McMahon
Title: Senior Vice President

THE BANK OF NEW YORK MELLON

By /s/ Daniel Lenckos
Title: First Vice President

WILLIAM STREET COMMITMENT CORPORATION (Recourse only to the assets of William Street Commitment Corporation)

By /s/ Mark Walton
Title: Assistant Vice President

MORGAN STANLEY BANK

By /s/ Melissa James

Title: Authorized Signatory

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

By /s/ Jiang Tao

Title: General Manager, Banking Dept.

DBS BANK LTD., LOS ANGELES AGENCY

By /s/ James McWalter

Title: General Manager

CHINA CONSTRUCTION BANK CORPORATION

By /s/ Wei, Cheng Guo

Title: Deputy General Manager, Shaan Xi Branch

BANK OF CHINA, NEW YORK BRANCH

By /s/ William W. Smith

Title: Deputy General Manager

EXHIBIT 31.1

CERTIFICATION

I, Michael R. Splinter, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: September 1, 2009

/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 1, 2009

/s/ George S. Davis

George S. Davis
Senior Vice President, Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended July 26, 2009, 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 July 26, 2009 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 July 26, 2009 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: September 1, 2009

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

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended July 26, 2009, I, George S. Davis, Senior 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 July 26, 2009 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 July 26, 2009 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: September 1, 2009

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