APPLIED MATERIALS INC /DE
Form 10-Q
May 24, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 29, 2012
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 000-06920
Applied Materials, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Number of shares outstanding of the issuer's common stock as of April 29, 2012: 1,281,712,814

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(Unaudited)			
	(In millions, except per share amounts)			
Net sales	$2,541	$2,862	$4,730	$5,549
Cost of products sold	1,530	1,673	2,933	3,224
Gross margin	1,011	1,189	1,797	2,325
Operating expenses:				
Research, development and engineering	321	297	625	567
Selling, general and administrative	281	219	584	440
Restructuring charges and asset impairments	—	(4)	—	(33)
Total operating expenses	602	512	1,209	974
Income from operations	409	677	588	1,351
Impairment of strategic investments (Notes 3 and 4)	3	—	3	—
Interest and other expenses	23	5	47	10
Interest and other income, net	4	14	8	25
Income before income taxes	387	686	546	1,366
Provision for income taxes	98	197	140	371
Net income	$289	$489	$406	$995
Earnings per share:				
Basic and diluted	$0.22	$0.37	$0.31	$0.75
Weighted average number of shares:				
Basic	1,289	1,320	1,294	1,322
Diluted	1,301	1,333	1,305	1,333

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(Unaudited) (In millions)			
Net income	$289	$489	$406	$995
Other comprehensive income, net of tax:				
Change in unrealized net gain on investments	2	(1)	3	(2)
Change in unrealized net gain on derivative investments	—	3	—	2
Change in defined benefit plan liability	—	(1)	—	(1)
Change in cumulative translation adjustments	(2)	—	(2)	—
Other comprehensive income (loss)	—	1	1	(1)
Comprehensive income	$289	$490	$407	$994

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS*

	April 29, 2012	October 30, 2011
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 3 and 4)	$1,761	$5,960
Short-term investments (Notes 3 and 4)	409	283
Accounts receivable, net (Note 6)	1,785	1,532
Inventories (Note 7)	1,594	1,701
Deferred income taxes, net	572	580
Other current assets	209	299
Total current assets	6,330	10,355
Long-term investments (Notes 3 and 4)	1,071	931
Property, plant and equipment, net (Note 7)	939	866
Goodwill (Notes 8 and 9)	3,939	1,335
Purchased technology and other intangible assets, net (Notes 8 and 9)	1,464	211
Deferred income taxes and other assets	134	163
Total assets	$13,877	$13,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$1	$—
Accounts payable and accrued expenses (Note 7)	1,466	1,520
Customer deposits and deferred revenue (Note 7)	1,113	1,116
Income taxes payable	86	158
Total current liabilities	2,666	2,794
Long-term debt (Note 10)	1,946	1,947
Employee benefits and other liabilities	562	320
Total liabilities	5,174	5,061
Stockholders' equity (Note 11):		
Common stock	13	13
Additional paid-in capital	5,730	5,616
Retained earnings	13,217	13,029
Treasury stock	(10,264)	(9,864)
Accumulated other comprehensive income	7	6
Total stockholders' equity	8,703	8,800
Total liabilities and stockholders' equity	$13,877	$13,861

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income	Total
	Shares	Amount			Shares	Amount		
	(Unaudited) (In millions)							
Balance at October 30, 2011	1,306	$13	$ 5,616	$13,029	573	$(9,864)	$ 6	$8,800
Net income	—	—	—	406	—	—	—	406
Other comprehensive income	—	—	—	—	—	—	1	1
Dividends	—	—	—	(218)	—	—	—	(218)
Share-based compensation	—	—	96	—	—	—	—	96
Stock options assumed in connection with acquisition	—	—	11	—	—	—	—	11
Issuance under stock plans, net of tax detriment of $14 and other	10	—	7	—	—	—	—	7
Common stock repurchases	(34)	—	—	—	34	(400)	—	(400)
Balance at April 29, 2012	1,282	$13	$ 5,730	$13,217	607	$(10,264)	$ 7	$8,703

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	April 29, 2012	May 1, 2011
	(Unaudited) (In millions)	
Cash flows from operating activities:		
Net income	$406	$995
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	220	128
Net loss on dispositions and fixed asset retirements	3	1
Provision for bad debts	9	—
Restructuring charges and asset impairments	—	(33)
Deferred income taxes	28	(17)
Net recognized loss on investments	10	5
Impairment of strategic investments	3	—
Share-based compensation	96	72
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	(67)	(85)
Inventories	357	(246)
Prepaid income taxes	18	(110)
Other current assets	114	20
Other assets	—	(2)
Accounts payable and accrued expenses	(268)	25
Customer deposits and deferred revenue	(55)	432
Income taxes payable	(93)	(64)
Employee benefits and other liabilities	3	8
Cash provided by operating activities	784	1,129
Cash flows from investing activities:		
Capital expenditures	(76)	(81)
Cash paid for acquisition, net of cash acquired	(4,186)	—
Proceeds from sale of facility	—	39
Proceeds from sales and maturities of investments	560	904
Purchases of investments	(714)	(896)
Cash used in investing activities	(4,416)	(34)
Cash flows from financing activities:		
Debt repayments	—	(1)
Proceeds from common stock issuances	45	59
Common stock repurchases	(400)	(268)
Payment of dividends to stockholders	(208)	(186)
Cash used in financing activities	(563)	(396)
Effect of exchange rate changes on cash and cash equivalents	(4)	1
Increase (decrease) in cash and cash equivalents	(4,199)	700
Cash and cash equivalents — beginning of period	5,960	1,858
Cash and cash equivalents — end of period	$1,761	$2,558
Supplemental cash flow information:		
Cash payments for income taxes	$179	$556

Cash refunds from income taxes	$4	$2
Cash payments for interest	$48	$7

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 30, 2011 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Annual Report on Form 10-K for the fiscal year ended October 30, 2011 (2011 Form 10-K). Applied's results of operations for the three and six months ended April 29, 2012 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2012 and 2011 each contain 52 weeks, and the first half of fiscal 2012 and 2011 each contained 26 weeks.

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

Use of Estimates

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

Revenue Recognition

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

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

Note 2 Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions, except per share amounts)			
Numerator:				
Net income	$289	$489	$406	$995
Denominator:				
Weighted average common shares outstanding	1,289	1,320	1,294	1,322
Effect of dilutive stock options, restricted stock units and employee stock purchase plan shares	12	13	11	11
Denominator for diluted earnings per share	1,301	1,333	1,305	1,333
Basic and diluted earnings per share	$0.22	$0.37	$0.31	$0.75
Potentially dilutive securities	8	18	13	18

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

Note 3 Cash, Cash Equivalents and Investments

Summary of Cash, Cash Equivalents and Investments

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

April 29, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$620	$—	$—	$620
Cash equivalents:				
Money market funds	1,141	—	—	1,141
Total Cash equivalents	1,141	—	—	1,141
Total Cash and Cash equivalents	$1,761	$—	$—	$1,761
Short-term and long-term investments:				
U.S. Treasury and agency securities	$302	$1	$—	$303
Non-U.S. government securities*	22	—	—	22
Municipal securities	395	2	—	397
Commercial paper, corporate bonds and medium-term notes	314	3	—	317
Asset-backed and mortgage-backed securities	301	3	1	303
Total fixed income securities	1,334	9	1	1,342
Publicly traded equity securities	45	30	6	69
Equity investments in privately-held companies	69	—	—	69
Total short-term and long-term investments	$1,448	$39	$7	$1,480
Total Cash, Cash equivalents and Investments	$3,209	$39	$7	$3,241

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

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

Maturities of Investments

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

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$365	$365
Due after one through five years	667	672
Due after five years	1	2
No single maturity date**	415	441
	$1,448	$1,480

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

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APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Gains and Losses on Investments

Gross realized gains and losses on sales of investments during the three and six months ended April 29, 2012 and May 1, 2011 were as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions)			
Gross realized gains	$1	$8	$2	$13
Gross realized losses	$1	$1	$2	$1

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

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

	In Loss Position for Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In millions)			
Asset-backed and mortgage-backed securities	$42	$1	$42	$1
Publicly traded equity securities	$19	$6	$19	$6
Total	$61	$7	$61	$7

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

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

Total	$109	$2	$109	$2

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

Note 4 Fair Value Measurements

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

Fair Value Hierarchy

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

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

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

Investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. As of April 29, 2012, substantially all of Applied’s available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	April 29, 2012			October 30, 2011		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Money market funds	$1,141	$—	$1,141	$5,663	$—	$5,663
U.S. Treasury and agency securities	93	210	303	109	76	185
Non-U.S. government securities	—	22	22	—	40	40
Municipal securities	—	397	397	—	373	373
Commercial paper, corporate bonds and medium-term notes	—	317	317	—	218	218
Asset-backed and mortgage-backed securities	—	303	303	—	309	309
Publicly traded equity securities	69	—	69	27	—	27
Total	$1,303	$1,249	$2,552	$5,799	$1,016	$6,815
Liabilities:						
Deferred compensation	$7	$—	$7	$—	$—	$—
Total	$7	$—	$7	$—	$—	$—

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

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

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

Equity investments in privately-held companies are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. If Applied determines that an other-than-temporary impairment has occurred, the investment will be written down to its estimated fair value based on available information, such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. Equity investments in privately-held companies totaled $69 million at April 29, 2012, of which $52 million of investments were accounted for under the cost method of accounting and $17 million of Level 3 investments had been measured at fair value on a non-recurring basis due to an other-than-temporary decline in value. At October 30, 2011, equity investments in privately-held companies totaled $62 million, of which $40 million of investments were accounted for under the cost method of accounting and $22 million of Level 3 investments had been measured at fair value on a non-recurring basis due to an other-than-temporary decline in value. During the three and six months ended April 29, 2012, Level 3 equity investments in privately-held companies of $5 million were transferred to Level 1 assets measured at fair value on a recurring basis due to change in investee structure which improved price transparency.

During the first half of fiscal 2012, Applied determined that certain of its equity investments held in privately held companies were other-than-temporarily impaired and, accordingly, recognized impairment charges of $3 million for the three and six months ended April 29, 2012. Applied did not recognize any impairment on its equity method investments in privately-held companies for the three and six months ended May 1, 2011.

Other

The carrying amounts of Applied's financial instruments, including cash and cash equivalents, accounts receivable, notes payable, and accounts payable and accrued expenses, approximate fair value due to the short maturities of these financial instruments. At April 29, 2012, the carrying amount of long-term debt was $1.9 billion and the estimated fair value was $2.2 billion. The estimated fair value of long-term debt is determined by Level 2 inputs and is based on quoted market prices for the same or similar issues.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

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

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

Hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges and are typically entered into once per month. Cash flow hedges are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income or loss (AOCI) in stockholders' equity and is reclassified into earnings when the hedged transaction affects earnings. The majority of the after-tax net income or loss related to derivative instruments included in AOCI at April 29, 2012 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Both ineffective hedge amounts and hedge components excluded from the assessment of effectiveness are recognized promptly in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three and six months ended April 29, 2012 and May 1, 2011.

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

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

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The effect of derivative instruments on the Consolidated Condensed Statement of Operations for the three and six months ended April 29, 2012 and May 1, 2011 was as follows:

		Three Months Ended April 29, 2012			Three Months Ended May 1, 2011		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing
	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income
		(In millions)					
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$6	$ 4	$ (1)	$8	$ 1	$ (1)
Foreign exchange contracts	General and administrative	—	1	—	—	2	(1)
Total		$6	$ 5	$ (1)	$8	$ 3	$ (2)

		Six Months Ended April 29, 2012			Six Months Ended May 1, 2011		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing
	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income
		(In millions)					
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$5	$ 6	$ —	$12	$ 5	$ (3)
Foreign exchange contracts	General and administrative	—	(2)	(1)	—	3	(1)
Total		$5	$ 4	$ (1)	$12	$ 8	$ (4)

	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Income			
		Three Months Ended		Six Months Ended	
		April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
		(In millions)			
Derivatives Not Designated as Hedging Instruments					
Foreign exchange contracts	General and administrative	$8	$1	$14	$3
Total		$8	$1	$14	$3

Credit Risk Contingent Features

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

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

Note 6 Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable and discount promissory notes from selected customers. Applied also discounts letters of credit through various financial institutions. Applied sells its accounts receivable without recourse. Details of discounted letters of credit, factored accounts receivable and discounted promissory notes for the three and six months ended April 29, 2012 and May 1, 2011 were as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions)			
Discounted letters of credit	$—	$50	$—	$173
Factored accounts receivable and discounted promissory notes	—	19	70	55
Total	$—	$69	$70	$228

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

Accounts receivable are presented net of allowance for doubtful accounts of $82 million at April 29, 2012 and $73 million at October 30, 2011. Applied sells principally to manufacturers within the semiconductor, display and solar industries. As a result of challenging economic and industry conditions, certain of these manufacturers may experience difficulties in meeting their obligations in a timely manner. While Applied believes that its allowance for doubtful accounts is adequate and represents Applied's best estimate as of April 29, 2012, Applied will continue to closely monitor customer liquidity and other economic conditions, which may result in changes to Applied's estimates regarding collectability.

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APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 7 Balance Sheet Detail

	April 29, 2012	October 30, 2011
	(In millions)	
Inventories		
Customer service spares	$306	$328
Raw materials	383	407
Work-in-process	338	336
Finished goods*	567	630
	$1,594	$1,701

* Included in finished goods inventory is $186 million at April 29, 2012, and $224 million at October 30, 2011, of newly-introduced systems at customer locations where the sales transaction did not meet Applied's revenue recognition criteria as set forth in Note 1, Basis of Presentation. Finished goods inventory also includes $195 million and $140 million of evaluation inventory at April 29, 2012 and October 30, 2011, respectively.

	Useful Life	April 29, 2012	October 30, 2011
	(In years)	(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		$169	$163
Buildings and improvements	3-30	1,190	1,155
Demonstration and manufacturing equipment	3-5	753	686
Furniture, fixtures and other equipment	3-15	735	722
Construction in progress		31	12
Gross property, plant and equipment		2,878	2,738
Accumulated depreciation		(1,939)	(1,872)
		$939	$866

In the first quarter of fiscal 2011, Applied received $39 million in proceeds from the sale of a property located in North America and incurred a loss of $1 million on the transaction.

	April 29, 2012	October 30, 2011
	(In millions)	
Accounts Payable and Accrued Expenses		
Accounts payable	$507	$484
Compensation and employee benefits	355	455
Warranty	152	168
Dividends payable	115	104
Other accrued taxes	70	81
Interest payable	30	31
Restructuring reserve	6	11
Other	231	186
	$1,466	$1,520

As of April 29, 2012, other accrued expenses included a $16 million acquisition obligation for untendered Varian shares.

	April 29, 2012	October 30, 2011
	(In millions)	
Customer Deposits and Deferred Revenue		
Customer deposits	$191	$249
Deferred revenue	922	867
	$1,113	$1,116

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

Note 8 Business Combination

On November 10, 2011, Applied completed the acquisition of Varian, a public company manufacturer of semiconductor processing equipment and the leading supplier of ion implantation equipment used by chip makers around the world, for an aggregate purchase price of $4.2 billion in cash, net of cash acquired and assumed earned equity awards of $27 million, pursuant to an Agreement and Plan of Merger (the Merger Agreement) dated as of May 3, 2011. Applied’s primary reasons for this acquisition were to complement existing product offerings and to provide opportunities for future growth. Varian designs, markets, manufactures and services ion implantation systems. These systems are primarily used in the manufacture of transistors, which are a basic building block of integrated circuits (ICs) or microchips. Ion implantation systems create a beam of electrically charged particles called ions, which are implanted into transistor structures at precise locations and depths, changing the electrical properties of the semiconductor device. These implantation systems may also be used in other areas of IC manufacture for modifying the material properties of the semiconductor devices, as well as in manufacturing crystalline-silicon solar cells.
Applied allocated the purchase price of this acquisition to tangible and identifiable intangible assets acquired and liabilities assumed, based on their estimated fair values. Applied preliminarily recorded $2.6 billion in goodwill, which represented the excess of the purchase price over the aggregate estimated fair values of the assets acquired and liabilities assumed in the acquisition. Of this amount, $1.8 billion of goodwill was allocated to the Silicon Systems Group segment, and the remainder was allocated to the Applied Global Services segment. Goodwill associated with the acquisition is primarily attributable to the opportunities from the addition of Varian's product portfolio which complement Applied's Silicon Systems Group's suite of products, including providing integrated process solutions to customers. Goodwill is not deductible for tax purposes. A discussion of the subsequent revision made during the second quarter of fiscal 2012 to the initial preliminary purchase price allocation is included in Note 9, Goodwill, Purchased Technology and Other Intangible Assets. The estimated fair value assigned to identifiable assets acquired and liabilities assumed was based upon preliminary estimates. Valuations and assumptions pertaining to income taxes are subject to change as additional information is obtained during the measurement period.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

The results of operations of Varian are included in Applied's consolidated results of operations, primarily in the results for the Silicon Systems Group and Applied Global Services segments, beginning in the first quarter of fiscal 2012. For the three months ended April 29, 2012, net sales of Varian products of approximately $333 million and an operating loss of approximately $1 million were included in the consolidated results of operations. For the six months ended April 29, 2012, net sales of Varian products of approximately $535 million and an operating loss of approximately $131 million were included in the consolidated results of operations. For the three and six months ended April 29, 2012, results of operations included charges of $69 million and $222 million, respectively, attributable to inventory fair value adjustments on products sold, amortization of purchased intangible assets, share-based compensation associated with accelerated vesting, deal costs and other integration costs associated with the acquisition. Of these amounts, deal costs and other acquisition-related costs of $1 million and $37 million were not allocated to the segments for the three and six months ended April 29, 2012, respectively. Deal costs are included in selling, general and administrative expenses in Applied's consolidated results of operations.

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

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions, except per share amounts)			
Net sales	$2,541	$3,192	$4,730	$6,161
Net income	$308	$508	$503	$957
Basic and diluted earnings per share	$0.24	$0.38	$0.39	$0.72

The pro forma results above include adjustments related to the purchase price allocation and financing of the acquisition, primarily to increase depreciation and amortization with the higher values of property, plant and equipment and identifiable intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition, and to reflect the related income tax effect. The pro forma results for the three and six months ended May 1, 2011 include costs of $15 million and $117 million, respectively, which reduced net income due to inventory fair value adjustments on products sold, share-based compensation associated with accelerated vesting and acquisition-related costs, which are not expected to occur in future quarters. The pro forma information does not necessarily reflect the actual results of operations had the acquisition been consummated at the beginning of the fiscal reporting period indicated nor is it necessarily indicative of future operating results. The pro forma information does not include any (i) potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition or (ii) transaction or integration costs relating to the acquisition.

Note 9 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

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

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

In fiscal 2011, Applied adopted authoritative guidance which allows entities to use a qualitative approach to test goodwill for impairment. This authoritative guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. In the first step of the two-step goodwill impairment test, Applied would compare the estimated fair value of each reporting unit to its carrying value. Applied's reporting units are consistent with the reportable segments identified in Note 15, Industry Segment Operations, based on the manner in which Applied operates its business and the nature of those operations. Applied determines the fair value of each of its reporting units based on a weighting of income and market approaches. Under the income approach, Applied calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Estimated future cash flows will be impacted by a number of factors including anticipated future operating results, estimated cost of capital and/or discount rates. Under the market approach, Applied estimates the fair value based on market multiples of revenue or earnings for comparable companies, as appropriate. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then Applied would perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. Applied would then allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, as if Applied had acquired the reporting unit in a business combination, with the fair value of the reporting unit being the "purchase price." The excess of the "purchase price" over the carrying amounts assigned to assets and liabilities represents the implied fair value of goodwill. If Applied determined that the carrying value of a reporting unit's goodwill exceeded its implied fair value, Applied would record an impairment charge equal to the difference.

In the second quarter of fiscal 2011, Applied negotiated the divestiture of certain assets held in the Applied Global Services segment and determined the trade name included in assets held for sale to be impaired and recorded $18 million of impairment charges. Applied performed a qualitative assessment to test goodwill for impairment in the fourth quarter of fiscal 2011, and determined that it was more likely than not that each of its reporting units' fair value exceeded its carrying value and that it was not necessary to perform the two-step goodwill impairment test. Applied tested goodwill of the Energy and Environmental Solutions reporting unit for potential impairment during the second quarter of fiscal 2012 in light of second quarter developments that included current industry trends, financial performance, weaker short-term outlooks, and other adverse operating conditions within the solar industry. The results of the first step of the impairment test indicated that goodwill of the Energy and Environmental Solutions reporting unit was not impaired.

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

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

In the event of future changes in business conditions in the markets in which the Display and Energy and Environmental Solutions reporting units operate, Applied will be required to reassess and update its forecasts and estimates used in future impairment analyses. If the results of these analyses are lower than current estimates, a material impairment charge may result at that time. As discussed in Note 16, Subsequent Event, on May 10, 2012, Applied announced that a committee of the Board of Directors approved a plan to restructure the Energy and Environmental Solutions segment. The restructuring plan is not expected to have a significant impact on the fair value of the Energy and Environmental Solutions reporting unit.

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

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APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Details of indefinite-lived intangible assets were as follows:

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

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

Finite-Lived Purchased Intangible Assets

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

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

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

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APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Details of finite-lived intangible assets were as follows:

	April 29, 2012			October 30, 2011		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Silicon Systems Group	$1,300	$252	$1,552	$310	$20	$330
Applied Global Services	28	44	72	28	40	68
Display	110	33	143	110	33	143
Energy and Environmental Solutions	106	232	338	105	232	337
Gross carrying amount	$1,544	$561	$2,105	$553	$325	$878
Accumulated amortization:						
Silicon Systems Group	$(334)	$(23)	$(357)	$(256)	$(8)	$(264)
Applied Global Services	(21)	(37)	(58)	(20)	(31)	(51)
Display	(104)	(26)	(130)	(102)	(25)	(127)
Energy and Environmental Solutions	(54)	(184)	(238)	(48)	(177)	(225)
Accumulated amortization	$(513)	$(270)	$(783)	$(426)	$(241)	$(667)
Carrying amount	$1,031	$291	$1,322	$127	$84	$211

During the first half of fiscal 2012, the change in gross carrying amount of the amortized intangible assets was approximately $1.2 billion, due to the acquisition of Varian as discussed in Note 8, Business Combination.
In the second quarter of fiscal 2011, Applied negotiated the divestiture of certain assets held in the Applied Global Services segment and determined identified purchased technology and finite-lived intangible assets included in assets held for sale to be impaired and recorded $6 million of impairment charges.
Details of amortization expense were as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions)			
Silicon Systems Group	$45	$3	$93	$7
Applied Global Services	2	2	7	4
Display	2	2	3	4
Energy and Environmental Solutions	6	6	13	12
Total	$55	$13	$116	$27

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APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

For the three and six months ended April 29, 2012 and May 1, 2011, amortization expense was charged to the following categories:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions)			
Cost of products sold	$45	$9	$97	$18
Research, development and engineering	1	—	1	—
Selling, general and administrative	9	4	18	9
Total amortization expense	$55	$13	$116	$27

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

	Amortization Expense
	(In millions)
2012	$109
2013	209
2014	199
2015	183
2016	174
Thereafter	448
	$1,322

Note 10 Borrowing Facilities and Long-Term Debt

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.6 billion, of which $1.5 billion is comprised of a committed four-year revolving credit agreement with a group of banks that is scheduled to expire in May 2015. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at April 29, 2012. Remaining credit facilities in the amount of approximately $99 million are with Japanese banks. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen. No amounts were outstanding under any of the credit facilities at April 29, 2012 or October 30, 2011.

Long-term debt outstanding was as follows:

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

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

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APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

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

Accumulated Other Comprehensive Income

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

	April 29, 2012	October 30, 2011
	(In millions)	
Pension liability	$(25)	$(25)
Unrealized gain on investments, net	20	17
Cumulative translation adjustments	12	14
	$7	$6

Stock Repurchase Program

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

The following table summarizes Applied's stock repurchases for the three and six months ended April 29, 2012 and May 1, 2011:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions, except per share amounts)			
Shares of common stock repurchased	16	8	34	19
Cost of stock repurchased	$200	$118	$400	$268
Average price paid per share	$12.33	$15.54	$11.60	$14.48

Dividends

The following table summarizes the dividends declared by Applied's Board of Directors during fiscal 2012:

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

Applied currently anticipates that it will continue to pay cash dividends on a quarterly basis in the future, although the declaration and amount of any future cash dividend are at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interest of Applied and its stockholders.

Share-Based Compensation

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

During the three and six months ended April 29, 2012 and May 1, 2011, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock units, restricted stock, performance shares and performance units. Total share-based compensation and related tax benefits were as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions)			
Share-based compensation	$43	$38	$96	$72
Tax benefit recognized	$12	$11	$27	$21

The effect of share-based compensation on the results of operations for the three and six months ended April 29, 2012 and May 1, 2011 was as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions)			
Cost of products sold	$14	$13	$27	$24
Research, development, and engineering	13	12	26	22
Selling, general and administrative	16	13	43	26
Total share-based compensation	$43	$38	$96	$72

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

At April 29, 2012, Applied had $289 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of stock options, restricted stock units, restricted stock, performance units, performance shares and shares issued under Applied's ESPP, which will be recognized over a weighted average period of 2.7 years. On March 6, 2012, Applied's stockholders approved the amended and restated Employee Stock Incentive Plan (the Plan), which included an increase of 125 million shares of Applied common stock available for issuance under the Plan and other amendments to the Plan. Also, upon approval of the amended and restated Plan, the 2000 Global Equity Incentive Plan, which had approximately 76 million shares available for issuance, became unavailable for any future grants. At April 29, 2012, there were 199 million shares available for grants of stock options, restricted stock units, restricted stock, performance units, performance shares and other share-based awards under the Plan, and an additional 51 million shares available for issuance under the ESPP .

Stock Options

Applied grants options to purchase, at future dates, shares of its common stock to employees and consultants. The exercise price of each stock option equals the fair market value of Applied common stock on the date of grant. Options typically vest over three to four years, subject to the grantee's continued service with Applied through the scheduled vesting date, and expire no later than seven years from the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Applied's employee stock options have characteristics significantly different from those of publicly traded options. There were no stock options granted in the six months ended April 29, 2012 and May 1, 2011.

Stock option activity for the six months ended April 29, 2012 was as follows:

	Shares	Weighted Average Exercise Price
	(In millions, except per share amounts)	
Outstanding at October 30, 2011	30	$13.05
Assumed in Varian acquisition	5	$4.85
Exercised	(2)	$6.72
Canceled and forfeited	(8)	$16.70
Outstanding at April 29, 2012	25	$10.78
Exercisable at April 29, 2012	23	$11.13

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

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

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

For performance-based awards granted during fiscal 2011 and 2010, the performance goals require (i) the achievement of targeted annual, adjusted operating profit margin levels compared to Applied's peer companies in at least one of the four fiscal years beginning with the fiscal year of the grant, and (ii) that Applied's annual adjusted operating profit margin is positive in such year. An award that has become eligible for time-based vesting based on achievement of the performance goals will vest over approximately four years from the date of grant, provided that the grantee remains employed by Applied through each scheduled vesting date. Performance-based awards that do not become eligible for time-based vesting in a particular year may become eligible for time-based vesting in subsequent years up until the fourth fiscal year after grant, after which they are forfeited if the required performance goals have not been achieved.

During the six months ended April 29, 2012 the Committee granted performance-based awards that require the achievement of positive and relative annual, adjusted operating profit margin goals in a manner similar to the previously granted performance-based awards, with additional shares becoming eligible for time-based vesting depending on certain levels of achievement of Applied's total shareholder return (TSR) relative to a peer group comprised of companies in the Standard & Poor's 500 Information Technology Index measured at the end of a two-year period beginning fiscal 2012. The fair value of these performance-based awards is estimated on the date of the grant and assumes that the specified performance goals will be achieved. If the goals are achieved, these awards vest over a specified remaining service period as described above. If the performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed. The expected cost of each award is reflected over the service period and is reduced for estimated forfeitures.

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

Restricted stock unit, restricted stock and performance unit activity for the six months ended April 29, 2012 was as follows:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
	(In millions, except per share amounts)		
Non-vested restricted stock units, restricted stock and performance units at October 30, 2011	28	$12.64	2.8 Years
Granted	15	$10.69	
Vested	(7)	$12.86	
Canceled	(1)	$12.89	
Non-vested restricted stock units, restricted stock and performance units at April 29, 2012	35	$11.76	2.9 Years

At April 29, 2012, 1 million additional performance-based awards could be earned upon certain levels of achievement of Applied's TSR relative to a peer group at a future date.

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Employee Stock Purchase Plans

Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning or end of each 6-month purchase period, subject to certain limits. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was $2.89 and $3.61 for the three and six months ended April 29, 2012 and May 1, 2011, respectively. The number of shares issued under the ESPP during the three and six months ended April 29, 2012 and May 1, 2011 was 3 million. Compensation expense associated with the ESPP is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. Underlying assumptions used in the model are outlined in the following table:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
ESPP:				
Dividend yield	2.94%	1.98%	2.94%	1.98%
Expected volatility	33%	27%	33%	27%
Risk-free interest rate	0.12%	0.17%	0.12%	0.17%
Expected life (in years)	0.5	0.5	0.5	0.5

Note 12 Employee Benefit Plans

Applied sponsors a number of employee benefit plans, including defined benefit plans of certain foreign subsidiaries, and a plan that provides certain 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 six months ended April 29, 2012 and May 1, 2011 is presented below:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions)			
Service cost	$4	$4	$8	$8
Interest cost	3	3	7	7
Expected return on plan assets	(3)	(3)	(6)	(6)
Amortization of actuarial loss	1	1	1	1
Net periodic benefit cost	$5	$5	$10	$10

Note 13 Income Taxes

Applied’s effective income tax rate for the second quarter of fiscal 2012 and fiscal 2011 was a provision of 25.3 percent and 28.7 percent, respectively. Applied's effective income tax rate for the first six months of fiscal 2012 and fiscal 2011 was a provision of 25.6 percent and 27.2 percent, respectively. The rates for the three and six months ended April 29, 2012 were both lower than the rates for the comparable periods in the prior year primarily due to a favorable U.S. Internal Revenue Service audit settlement and changes in the composition of income in jurisdictions outside the U.S. with tax incentives. Applied’s future effective income tax rate depends on various factors, such as tax legislation and the geographic composition of Applied’s pre-tax income. Management carefully monitors these factors and timely adjusts the interim income tax rate accordingly.

Applied’s tax returns remain subject to examination by taxing authorities for fiscal 2004 and later years.

The timing of the resolution of income tax examinations, as well as the amounts and timing of various tax payments that may be made as part of the resolution process, is highly uncertain and could cause an impact to Applied’s consolidated results of operations. This could also cause large fluctuations in the balance sheet classification of current assets and non-current assets and liabilities. Applied expects that unrecognized tax benefits will decrease by $9 million in the next 12 months.

Note 14 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three and six months ended April 29, 2012 and May 1, 2011 were as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2012	May 1, 2011	April 29, 2012	May 1, 2011
	(In millions)			
Beginning balance	$161	$173	$168	$155
Provisions for warranty	33	48	62	99
Consumption of reserves	(42)	(37)	(78)	(70)
Ending balance	$152	$184	$152	$184

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

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Guarantees

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of April 29, 2012, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $49 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of April 29, 2012, Applied Materials, Inc. has provided parent guarantees to banks for approximately $188 million to cover these services.

Legal Matters

Jusung

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

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

In 2006, Applied filed an action in the TIPO challenging the validity of a Jusung patent related to separability of the transfer chamber on a CVD tool. Jusung sued Applied and AKT America in the Hsinchu District Court in Taiwan alleging infringement of the same patent. In March 2009, the Hsinchu District Court dismissed Jusung's lawsuit; in October, 2010, the Taiwan Intellectual Property Court dismissed Jusung's appeal; and on December 1, 2011, the Supreme Administrative Court dismissed Jusung's further appeal. Separately, the TIPO granted requests by Applied and another party to invalidate Jusung's patent. Following intermediate court appeals, on December 15, 2011, the Supreme Administrative Court dismissed Jusung's further appeal, irrevocably invalidating Jusung's patent. In November 2009, Applied filed an action in China with the Patent Reexamination Board of the State Intellectual Property Office seeking to invalidate a Chinese counterpart to Jusung's separable chamber patent. On June 18, 2010, the Patent Reexamination Board issued a decision invalidating Jusung's patent in China. Jusung appealed to the Beijing No. 1 Intermediate People's Court and on June 13, 2011, this Court dismissed Jusung's appeal. Jusung appealed this decision to the Beijing High People's Court in July 2011, and Jusung's appeal remains pending.

In 2006, Jusung filed a complaint of private prosecution in the Taipei District Court of Taiwan alleging that Applied's outside counsel received from the Court and used a copy of an expert report that Jusung had filed in the ongoing patent infringement lawsuits that Jusung had intended to remain confidential. The complaint named as defendants Applied's outside counsel in Taiwan, as well as Michael R. Splinter, Applied's Chairman, President and Chief Executive Officer, as the statutory representative of Applied. The Taipei District Court dismissed the private prosecution complaint, and the matter was transferred to the Taipei District Attorney's Office. The Taipei District Attorney's Office issued six separate rulings not to prosecute, each of which Jusung appealed. In the first five instances, the Taiwan High Court District Attorney returned the matter to the Taipei District Attorney's Office for further consideration. Following the sixth ruling not to prosecute, the Taiwan High Court District Attorney dismissed Jusung’s appeal. Jusung then petitioned to the Taipei District Court for a trial, and on February 7, 2012, the Court dismissed Jusung’s petition.

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Korea Criminal Proceedings

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

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

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

Environmental Matters

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

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

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

Note 15 Industry Segment Operations

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

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

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

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

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

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

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

The Energy and Environmental Solutions segment includes products for fabricating solar photovoltaic cells and modules, high throughput roll-to-roll coating systems for flexible electronics and web products, and systems used in the manufacture of energy-efficient glass.

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Net sales and operating income (loss) for each reportable segment for the three and six months ended April 29, 2012 and May 1, 2011 were as follows:

	Three Months Ended		Six Months Ended	
	Net Sales	Operating Income (loss)	Net Sales	Operating Income (loss)
	(In millions)			
April 29, 2012:				