

APPLIED MATERIALS INC /DE
Form 10-Q
August 22, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended July 28, 2013
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 94-165526
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3050 Bowers Avenue, 95052-8039
P.O. Box 58039
Santa Clara, California (Zip Code)
(Address of principal executive offices)

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

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

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

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

Large accelerated filer Accelerated filer

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

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

Number of shares outstanding of the issuer's common stock as of July 28, 2013: 1,202,826,487

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(Unaudited)			
	(In millions, except per share amounts)			
Net sales	\$1,975	\$2,343	\$5,521	\$7,073
Cost of products sold	1,169	1,413	3,325	4,347
Gross margin	806	930	2,196	2,726
Operating expenses:				
Research, development and engineering	334	309	982	933
Marketing and selling	111	118	334	374
General and administrative	97	137	348	465
Impairment of goodwill and intangible assets (Note 8)	—	—	278	—
Restructuring charges and asset impairments (Note 10)	14	44	33	44
Total operating expenses	556	608	1,975	1,816
Income from operations	250	322	221	910
Impairments of strategic investments (Notes 3 and 4)	3	—	5	3
Interest and other expenses (Note 9)	23	24	71	72
Interest and other income, net	4	4	11	13
Income before income taxes	228	302	156	848
Provision for income taxes	60	84	83	224
Net income	\$168	\$218	\$73	\$624
Earnings per share:				
Basic	\$0.14	\$0.17	\$0.06	\$0.49
Diluted	\$0.14	\$0.17	\$0.06	\$0.48
Weighted average number of shares:				
Basic	1,203	1,257	1,201	1,282
Diluted	1,220	1,268	1,218	1,292

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended		
	July 28,	July 29,	July 28,	July 29,	
	2013	2012	2013	2012	
	(Unaudited)				
	(In millions)				
Net income	\$168	\$218	\$73	\$624	
Other comprehensive income (loss), net of tax:					
Change in unrealized net gain on investments	(4) (9) 3	(6)
Change in unrealized net gain on derivative investments	(2) (4) 5	(4)
Change in defined benefit plan liability (Note 12)	—	—	(2) —	
Change in cumulative translation adjustments	(1) 1	(6) (1)
Other comprehensive income (loss), net of tax	(7) (12) —	(11)
Comprehensive income	\$161	\$206	\$73	\$613	

See accompanying Notes to Consolidated Condensed Financial Statements.

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CONSOLIDATED CONDENSED BALANCE SHEETS

	July 28, 2013	October 28, 2012
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 3 and 4)	\$1,745	\$1,392
Short-term investments (Notes 3 and 4)	230	545
Accounts receivable, net (Note 6)	1,170	1,220
Inventories (Note 7)	1,358	1,272
Other current assets (Note 7)	734	673
Total current assets	5,237	5,102
Long-term investments (Notes 3 and 4)	1,055	1,055
Property, plant and equipment, net (Note 7)	872	910
Goodwill (Note 8)	3,294	3,518
Purchased technology and other intangible assets, net (Note 8)	1,148	1,355
Deferred income taxes and other assets (Note 13)	145	162
Total assets	\$11,751	\$12,102
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	\$1,446	\$1,510
Customer deposits and deferred revenue (Note 7)	756	755
Total current liabilities	2,202	2,265
Long-term debt (Note 9)	1,946	1,946
Other liabilities (Note 7)	649	656
Total liabilities	4,797	4,867
Stockholders' equity (Note 11):		
Common stock	12	12
Additional paid-in capital	6,055	5,863
Retained earnings	12,425	12,700
Treasury stock	(11,477)	(11,279)
Accumulated other comprehensive loss	(61)	(61)
Total stockholders' equity	6,954	7,235
Total liabilities and stockholders' equity	\$11,751	\$12,102

Amounts as of July 28, 2013 are unaudited. Amounts as of October 28, 2012 are derived from the October 28, 2012 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 (Loss)	Total
	Shares	Amount			Shares	Amount		
	(Unaudited) (In millions)							
Balance at October 28, 2012	1,197	\$12	\$5,863	\$12,700	699	\$(11,279)	\$(61)	) \$7,235
Net income	—	—	—	73	—	—	—	73
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—
Dividends	—	—	—	(348)	—	—	—	(348)
Share-based compensation	—	—	121	—	—	—	—	121
Issuance under stock plans, net of a tax benefit of \$3 and other	21	—	71	—	—	—	—	71
Common stock repurchases	(15)	—	—	—	15	(198)	—	(198)
Balance at July 28, 2013	1,203	\$12	\$6,055	\$12,425	714	\$(11,477)	\$(61)	) \$6,954

See accompanying Notes to Consolidated Condensed Financial Statements.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	July 28, 2013	July 29, 2012
	(Unaudited)	
	(In millions)	
Cash flows from operating activities:		
Net income	\$73	\$624
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	312	325
Impairment of goodwill and intangible assets	278	—
Restructuring charges and asset impairments	33	44
Deferred income taxes and other	(102)	) 144
Share-based compensation	121	138
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	51	183
Inventories	(85)	) 571
Other assets	18	47
Accounts payable and accrued expenses	(132)	) (405)
Customer deposits and deferred revenue	—	(230)
Other liabilities	37	(1)
Cash provided by operating activities	604	1,440
Cash flows from investing activities:		
Capital expenditures, net	(140)	) (121)
Cash paid for acquisitions, net of cash acquired	(1)	) (4,189)
Proceeds from sales and maturities of investments	737	765
Purchases of investments	(438)	) (1,152)
Cash provided by (used in) investing activities	158	(4,697)
Cash flows from financing activities:		
Proceeds from common stock issuances and others, net	125	51
Common stock repurchases	(198)	) (900)
Payments of dividends to stockholders	(336)	) (323)
Cash used in financing activities	(409)	) (1,172)
Effect of exchange rate changes on cash and cash equivalents	—	(2)
Increase (decrease) in cash and cash equivalents	353	(4,431)
Cash and cash equivalents — beginning of year	1,392	5,960
Cash and cash equivalents — end of year	\$1,745	\$1,529
Supplemental cash flow information:		
Cash payments for income taxes	\$184	\$233
Cash refunds from income taxes	\$67	\$5
Cash payments for interest	\$85	\$87

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 28, 2012 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 28, 2012 (2012 Form 10-K). Applied's results of operations for the three and nine months ended July 28, 2013 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2013 and 2012 each contain 52 weeks, and the first nine months of fiscal 2013 and 2012 each contained 39 weeks.

Certain prior year amounts have been reclassified to conform to current year presentation.

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. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

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.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance that will require an unrecognized tax benefit to be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, with certain exceptions. The authoritative guidance becomes effective for Applied in the first quarter of fiscal 2015, with early adoption permitted. The guidance is not expected to have an impact on Applied's financial position or results of operations.

In February 2013, the FASB issued authoritative guidance that will require a public entity to present in its annual and interim financial statements information about reclassification adjustments from accumulated other comprehensive income in a single note or on the face of the financial statements. The authoritative guidance becomes effective for Applied in the first quarter of fiscal 2014, with early adoption permitted, and is not expected to have an impact on Applied's financial position or results of operations.

Note 2 Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions, except per share amounts)			
Numerator:				
Net income	\$168	\$218	\$73	\$624
Denominator:				
Weighted average common shares outstanding	1,203	1,257	1,201	1,282
Effect of dilutive stock options, restricted stock units and employee stock purchase plan shares	17	11	17	10
Denominator for diluted earnings per share	1,220	1,268	1,218	1,292
Basic earnings per share	\$0.14	\$0.17	\$0.06	\$0.49
Diluted earnings per share	\$0.14	\$0.17	\$0.06	\$0.48
Potentially dilutive securities	1	11	1	12

Potentially dilutive securities attributable to outstanding stock options and restricted stock units were excluded from the calculation of diluted earnings 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 Applied common stock, and therefore their inclusion would have been anti-dilutive.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 3 Cash, Cash Equivalents and Investments

Summary of Cash, Cash Equivalents and Investments

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

July 28, 2013	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	\$600	\$—	\$—	\$600
Cash equivalents:				
Money market funds	1,145	—	—	1,145
Total Cash equivalents	1,145	—	—	1,145
Total Cash and Cash equivalents	\$1,745	\$—	\$—	\$1,745
Short-term and long-term investments:				
U.S. Treasury and agency securities	\$229	\$1	\$1	\$229
Non-U.S. government securities*	11	—	—	11
Municipal securities	378	1	1	378
Commercial paper, corporate bonds and medium-term notes	257	2	1	258
Asset-backed and mortgage-backed securities	281	2	2	281
Total fixed income securities	1,156	6	5	1,157
Publicly traded equity securities	30	27	—	57
Equity investments in privately-held companies	71	—	—	71
Total short-term and long-term investments	\$1,257	\$33	\$5	\$1,285
Total Cash, Cash equivalents and Investments	\$3,002	\$33	\$5	\$3,030

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

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

October 28, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	\$876	\$—	\$—	\$876
Cash equivalents:				
Money market funds	483	—	—	483
Municipal securities	33	—	—	33
Total Cash equivalents	516	—	—	516
Total Cash and Cash equivalents	\$1,392	\$—	\$—	\$1,392
Short-term and long-term investments:				
U.S. Treasury and agency securities	\$373	\$1	\$—	\$374
Non-U.S. government securities	29	—	—	29
Municipal securities	396	2	—	398
Commercial paper, corporate bonds and medium-term notes	381	3	—	384
Asset-backed and mortgage-backed securities	294	4	—	298
Total fixed income securities	1,473	10	—	1,483
Publicly traded equity securities	32	15	—	47
Equity investments in privately-held companies	70	—	—	70
Total short-term and long-term investments	\$1,575	\$25	\$—	\$1,600
Total Cash, Cash equivalents and Investments	\$2,967	\$25	\$—	\$2,992

Maturities of Investments

The following table summarizes the contractual maturities of Applied's investments at July 28, 2013:

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	\$195	\$195
Due after one through five years	681	682
No single maturity date**	381	408
	\$1,257	\$1,285

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

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Gains and Losses on Investments

At July 28, 2013 and October 28, 2012, gross unrealized losses related to Applied's investment portfolio were not material. 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 July 28, 2013 and July 29, 2012 were temporary in nature and therefore it did not recognize any impairment of its marketable securities during the three and nine months ended July 28, 2013 or July 29, 2012. Applied recognized \$3 million and \$5 million of impairment charges on its equity investments in privately-held companies during the three and nine months ended July 28, 2013, respectively, and \$3 million of impairment charges during the nine months ended July 29, 2012. 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 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 July 28, 2013, substantially all of Applied's available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities (excluding cash balances) measured at fair value on a recurring basis are summarized below as of July 28, 2013 and October 28, 2012:

	July 28, 2013			October 28, 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Money market funds	\$1,145	\$—	\$1,145	\$483	\$—	\$483
U.S. Treasury and agency securities	105	124	229	128	246	374
Non-U.S. government securities	—	11	11	—	29	29
Municipal securities	—	378	378	—	431	431
Commercial paper, corporate bonds and medium-term notes	—	258	258	—	384	384
Asset-backed and mortgage-backed securities	—	281	281	—	298	298
Publicly traded equity securities	57	—	57	47	—	47
Total	\$1,307	\$1,052	\$2,359	\$658	\$1,388	\$2,046

There were no transfers between Level 1 and Level 2 fair value measurements during the three and nine months ended July 28, 2013 or July 29, 2012. Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements as of July 28, 2013 or October 28, 2012.

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. At July 28, 2013, equity investments in privately-held companies totaled \$71 million, of which \$61 million of investments were accounted for under the cost method of accounting and \$10 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value. At October 28, 2012, equity investments in privately-held companies totaled \$70 million, of which \$57 million of investments were accounted for under the cost method of accounting and \$13 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value. Applied recognized \$3 million and \$5 million of impairment charges on its equity investments in privately-held companies during the three and nine months ended July 28, 2013, respectively, and \$3 million of impairment charges during the nine months ended July 29, 2012.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

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 their short maturities. At July 28, 2013, the carrying amount of long-term debt was \$1.9 billion and the estimated fair value was \$2.1 billion. At October 28, 2012, the carrying amount of long-term debt was \$1.9 billion and the estimated fair value was \$2.3 billion. The estimated fair value of long-term debt is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as the 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 up to 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 July 28, 2013 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 in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three and nine months ended July 28, 2013 and July 29, 2012.

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 in earnings to offset the changes in the fair value of the assets or liabilities being hedged.

The fair values of derivative instruments at July 28, 2013 and October 28, 2012 were not material.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

The effect of derivative instruments on the Consolidated Condensed Statements of Operations for the three and nine months ended July 28, 2013 and July 29, 2012 was as follows:

		Three Months Ended July 28, 2013			Three Months Ended July 29, 2012		
		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 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	\$7	\$ 7	\$ (1)	\$(8)	\$ —	\$ (1)
Foreign exchange contracts	General and administrative	—	3	(1)	—	(2)	—
Total		\$7	\$ 10	\$ (2)	\$(8)	\$(2)	\$ (1)
		Nine Months Ended July 28, 2013			Nine Months Ended July 29, 2012		
		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 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	\$29	\$ 16	\$ (2)	\$(3)	\$ 5	\$ (1)
Foreign exchange contracts	General and administrative	—	6	(1)	—	(3)	(1)
Total		\$29	\$ 22	\$ (3)	\$(3)	\$ 2	\$ (2)

	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Income			
		Three Months Ended		Nine Months Ended	
		July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
(In millions)					
Derivatives Not Designated as Hedging Instruments					
Foreign exchange contracts	General and administrative	\$2	\$(11)	\$31	\$3
Total		\$2	\$(11)	\$31	\$3

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

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 July 28, 2013.

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 sells its accounts receivable without recourse. Applied, from time to time, also discounts letters of credit issued by customers through various financial institutions. The discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements.

There was no factoring of accounts receivable or discounting of promissory notes during the three and nine months ended July 28, 2013 or the three months ended July 29, 2012. Applied factored accounts receivable and discounted promissory notes of \$70 million during the nine months ended July 29, 2012. Applied did not utilize programs to discount letters of credit issued by customers during the three and nine months ended July 28, 2013 and July 29, 2012. Financing charges on the sale of receivables and discounting of letters of credit are included in interest expense in the accompanying Consolidated Condensed Statements of Operations and were not material for all periods presented. Accounts receivable are presented net of allowance for doubtful accounts of \$82 million at July 28, 2013 and \$87 million at October 28, 2012. Applied sells principally to manufacturers within the semiconductor, display and solar industries. While Applied believes that its allowance for doubtful accounts is adequate and represents Applied's best estimate as of July 28, 2013, Applied continues to closely monitor customer liquidity and other economic conditions, which may result in changes to Applied's estimates regarding collectability.

Note 7 Balance Sheet Detail

	July 28, 2013	October 28, 2012
	(In millions)	
Inventories		
Customer service spares	\$270	\$312
Raw materials	311	331
Work-in-process	267	234
Finished goods	510	395
	\$1,358	\$1,272

Included in finished goods inventory are \$128 million at July 28, 2013, and \$60 million at October 28, 2012, of newly-introduced systems at customer locations where the sales transaction did not meet Applied's revenue recognition criteria as set forth in Note 1. Finished goods inventory includes \$175 million and \$176 million of

evaluation inventory at July 28, 2013 and October 28, 2012, respectively.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

		July 28, 2013	October 28, 2012
		(In millions)	
Other Current Assets			
Deferred income taxes, net		\$431	\$369
Prepaid expenses		127	101
Income taxes receivable		30	87
Other		146	116
		\$734	\$673
	Useful Life	July 28, 2013	October 28, 2012
	(In years)	(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		\$167	\$169
Buildings and improvements	3-30	1,210	1,196
Demonstration and manufacturing equipment	3-5	787	760
Furniture, fixtures and other equipment	3-15	607	734
Construction in progress		55	58
Gross property, plant and equipment		2,826	2,917
Accumulated depreciation		(1,954)	(2,007)
		\$872	\$910
		July 28, 2013	October 28, 2012
		(In millions)	
Accounts Payable and Accrued Expenses			
Accounts payable		\$515	\$396
Compensation and employee benefits		394	426
Warranty		100	119
Dividends payable		120	108
Income taxes payable		44	74
Other accrued taxes		28	18
Interest payable		14	30
Restructuring reserve		17	133
Other		214	206
		\$1,446	\$1,510

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

	July 28, 2013	October 28, 2012
	(In millions)	
Customer Deposits and Deferred Revenue		
Customer deposits	\$ 145	\$ 143
Deferred revenue	611	612
	\$ 756	\$ 755

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

	July 28, 2013	October 28, 2012
	(In millions)	
Other Liabilities		
Deferred income taxes	\$ 146	\$ 201
Income taxes payable	153	140
Defined benefit pension plan liability	190	184
Other	160	131
	\$ 649	\$ 656

Note 8 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

Applied's methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the purchase price 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.

To test goodwill for impairment, Applied first performs 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, Applied then performs the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, Applied would in the first step compare the estimated fair value of each reporting unit to its carrying value. Applied determines the fair value of each of its reporting units based on a weighting of income and market approaches. If the carrying value of a reporting unit exceeds its fair value, Applied would then perform the second step of the impairment test in order to determine the implied fair value of the

reporting unit's goodwill. If Applied determines that the carrying value of a reporting unit's goodwill exceeds its implied fair value, Applied would record an impairment charge equal to the difference. Applied's reporting units are consistent with the reportable segments identified in Note 15, Industry Segment Operations, which are based on the manner in which Applied operates its business and the nature of those operations.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

During the second quarter of fiscal 2013, the solar industry experienced further deterioration of market conditions associated with continued manufacturing overcapacity and weaker operating performance and outlook, resulting in increased uncertainties regarding the timing and nature of a recovery in solar capital equipment expenditures. Taking these factors into account, Applied reassessed its financial outlook for the Energy and Environmental Solutions reporting unit and consequently reevaluated the recoverability of this reporting unit's goodwill. Applied performed the two-step impairment test and concluded that the Energy and Environmental Solutions reporting unit's carrying value exceeded its fair value. Based on Applied's analyses, the implied fair value of goodwill was substantially lower than the carrying value of goodwill for the reporting unit. As a result, in the second quarter of fiscal 2013, Applied recorded a goodwill impairment charge of \$224 million, representing all of the remaining goodwill for this reporting unit. Applied also performed an impairment test for long-lived assets associated with the reporting unit and determined that the majority of intangible assets were impaired mostly due to the lower long-term revenue and profitability outlook associated with products related to these intangible assets. Accordingly, during the second quarter of fiscal 2013, Applied recorded an impairment charge of \$54 million related to these intangible assets, which was the amount by which the carrying value of these intangible assets exceeded their estimated fair value, based on discounted projected cash flows.

The evaluation of goodwill and intangible assets for impairment requires the exercise of significant judgment. In the event of future changes in business conditions, Applied will be required to reassess and update its forecasts and estimates used in future impairment analyses. If the results of these future analyses are lower than current estimates, a material impairment charge may result at that time.

Details of goodwill and other indefinite-lived intangible assets as of July 28, 2013 and October 28, 2012 were as follows :

	July 28, 2013			October 28, 2012		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In millions)					
Silicon Systems Group	\$2,151	\$142	\$2,293	\$2,151	\$142	\$2,293
Applied Global Services	1,027	—	1,027	1,027	—	1,027
Display	116	—	116	116	—	116
Energy and Environmental Solutions	—	—	—	224	—	224
Carrying amount	\$3,294	\$142	\$3,436	\$3,518	\$142	\$3,660

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 taking into account 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.

A summary of Applied's purchased technology and intangible assets is set forth below:

July 28, 2013	October 28, 2012
------------------	---------------------

(In millions)

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Purchased technology, net	\$786	\$945
Intangible assets - finite-lived, net	220	268
Intangible assets - indefinite-lived	142	142
Total	\$1,148	\$1,355

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

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 environments, technological advances, and changes in cost structure.

Details of finite-lived intangible assets were as follows as of July 28, 2013 and October 28, 2012:

	July 28, 2013			October 28, 2012		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Silicon Systems Group	\$1,301	\$252	\$1,553	\$1,300	\$252	\$1,552
Applied Global Services	28	44	72	28	44	72
Display	110	33	143	110	33	143
Energy and Environmental Solutions	5	15	20	105	232	337
Gross carrying amount	\$1,444	\$344	\$1,788	\$1,543	\$561	\$2,104
Accumulated amortization:						
Silicon Systems Group	\$(524)	\$(53)	\$(577)	\$(411)	\$(36)	\$(447)
Applied Global Services	(23)	(41)	(64)	(22)	(39)	(61)
Display	(110)	(29)	(139)	(106)	(27)	(133)
Energy and Environmental Solutions	(1)	(1)	(2)	(59)	(191)	(250)
Accumulated amortization	\$(658)	\$(124)	\$(782)	\$(598)	\$(293)	\$(891)
Carrying amount	\$786	\$220	\$1,006	\$945	\$268	\$1,213

During the second quarter of fiscal 2013, the impact of the impairment of certain intangible assets associated with the Energy and Environmental Solutions segment on the gross carrying amount and accumulated amortization of the

finite-lived intangible assets was approximately \$317 million and \$262 million, respectively.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Details of amortization expense by segment for the three and nine months ended July 28, 2013 and July 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
Silicon Systems Group	\$42	\$45	\$130	\$138
Applied Global Services	1	1	3	8
Display	2	2	6	5
Energy and Environmental Solutions	1	6	14	19
Total	\$46	\$54	\$153	\$170

For the three and nine months ended July 28, 2013 and July 29, 2012, amortization expense was charged to the following categories:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
Cost of products sold	\$40	\$44	\$126	\$141
Research, development and engineering	—	—	1	1
Marketing and selling	5	8	21	23
General and administrative	1	2	5	5
Total	\$46	\$54	\$153	\$170

As of July 28, 2013, future estimated amortization expense is expected to be as follows:

	Amortization Expense (In millions)
2013	46
2014	180
2015	175
2016	168
2017	165
Thereafter	272
Total	\$1,006

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 9 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 revolving credit agreement with a group of banks that was extended by one year in May 2013 and is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at July 28, 2013. Remaining credit facilities in the amount of approximately \$80 million are with Japanese banks. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both July 28, 2013 and October 28, 2012 and Applied has not utilized these credit facilities.

Long-term debt outstanding as of July 28, 2013 and October 28, 2012 was as follows:

	Principal Amount	Effective Interest Rate	Interest Pay Dates
	(In millions)		
2.650% Senior Notes Due 2016	\$400	2.666%	June 15, December 15
7.125% Senior Notes Due 2017	200	7.190%	April 15, October 15
4.300% Senior Notes Due 2021	750	4.326%	June 15, December 15
5.850% Senior Notes Due 2041	600	5.879%	June 15, December 15
	1,950		
Total unamortized discount	(4)	
Total long-term debt	\$1,946		

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At July 28, 2013, Applied was in compliance with all such covenants.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 10 Restructuring Charges and Asset Impairments

From time to time, Applied initiates restructuring activities to appropriately align its cost structure relative to prevailing economic and industry conditions and associated customer demand as well as in connection with certain acquisitions. Costs associated with restructuring actions can include termination benefits and related charges, in addition to facility closure, contract termination and other related activities.

The following table summarizes major components of the restructuring and asset impairment charges during the three and nine months ended July 28, 2013:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
2012 Global Restructuring Plan				
Severance and other employee-related costs ¹	\$4	\$—	\$12	\$—
2012 EES Restructuring Plan				
Severance and other employee-related costs ²	3	24	5	24
Contract cancellation and other costs	1	—	3	—
Asset impairments	6	11	11	11
Others				
Severance and other employee-related costs	—	9	2	9
	\$14	\$44	\$33	\$44

¹ Includes share-based compensation expense which was recorded in additional paid-in capital.

² Includes post-retirement benefit expense which was recorded in accumulated other comprehensive loss.

Restructuring and asset impairment charges were recorded as follows:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
Silicon Systems Group	\$—	\$1	\$1	\$1
Applied Global Services	—	11	2	11
Energy and Environmental Solutions	10	32	18	32
Corporate Unallocated	4	—	12	—
Total	\$14	\$44	\$33	\$44

Global Restructuring Plan

On October 3, 2012, Applied announced a restructuring plan (the 2012 Global Restructuring Plan) to realign its global workforce and enhance its ability to invest for growth. Under this plan, Applied implemented a voluntary retirement program and other workforce reduction actions that were expected to affect approximately 900 to 1,300 positions, or 6 percent to 9 percent of its global workforce. The voluntary retirement program was available to certain U.S. employees who met minimum age and length of service requirements, as well as other business-specific criteria.

Applied implemented other workforce reduction actions globally across multiple business segments and functions, the extent of which depended on the number of employees who participated in the voluntary retirement program and other considerations.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

In connection with the 2012 Global Restructuring Plan, Applied expects to incur aggregate pre-tax restructuring charges comprised of severance and other termination benefits in the range of \$120 million to \$160 million (including costs incurred to date of \$118 million discussed below). Applied expected to substantially complete this plan by the end of the third quarter of fiscal 2013. Applied has extended this plan and expects to substantially complete it by the end of the first quarter of fiscal 2014.

During the third quarter and first nine months of fiscal 2013, Applied recognized \$4 million and \$12 million, respectively, of employee-related costs in connection with the 2012 Global Restructuring Plan. These costs were not allocated to the segments. Applied has incurred aggregate pre-tax restructuring charges comprised of severance and other termination benefits of \$118 million under this plan.

2012 EES Restructuring Plan

On May 10, 2012, Applied announced a plan (the 2012 EES Restructuring Plan) to restructure its Energy and Environmental Solutions segment in light of challenging industry conditions affecting the solar photovoltaic and light-emitting diode (LED) equipment markets. As part of this plan, Applied relocated certain manufacturing, business operations and customer support functions of its precision wafering systems business and ceased LED development activities. This plan also impacted certain LED support activities in the Applied Global Services segment. The total estimated pre-tax cost of implementing this plan is expected to be in the range of approximately \$70 million to \$100 million, which will be incurred over a period of up to 18 months beginning in the third quarter of fiscal 2012, and reported primarily in the Energy and Environmental Solutions segment. This estimate consists of: (i) up to \$30 million in fixed asset impairment charges; (ii) up to \$15 million of inventory-related charges; (iii) up to \$15 million in charges arising from lease terminations and other obligations, and (iv) up to \$40 million in severance and other employee-related costs. The 2012 EES Restructuring Plan has impacted approximately 250 positions globally. As the Energy and Environmental Solutions segment continues to consolidate infrastructure and reduce its operating expenses, Applied expects approximately 150 additional positions to be impacted globally. No changes in the estimated pre-tax cost of the implementation of this plan are anticipated. During the third quarter and first nine months of fiscal 2013, Applied recognized \$10 million and \$19 million, respectively, of restructuring and asset impairment charges in connection with this plan, which were primarily reported in the Energy and Environmental Solutions segment. As of July 28, 2013, total costs incurred in implementing this plan were \$80 million, of which \$13 million were inventory-related charges.

Integration of Varian Semiconductor Associates, Inc. (Varian)

During the first nine months of fiscal 2013, Applied recognized \$2 million of severance and other employee-related costs in connection with the integration of Varian, acquired in the first quarter of fiscal 2012, which costs were reported in the Silicon Systems Group and Applied Global Services segments. As of July 28, 2013, the remaining severance accrual associated with restructuring reserves under this program was \$2 million.

Restructuring Reserves

Changes in restructuring reserves during the nine months ended July 28, 2013 were as follows:

2012		2012 EES Restructuring Plan		Others		Total
Global Restructuring Plan	Severance and Other Employee-Related Costs	Severance and Other Employee-Related Costs	Contract Cancellation and Other	Severance and Other Employee-Related Costs	Contract Cancellation and Other	

	Costs					
	(In millions)					
Balance, October 28, 2012	\$106	\$16	\$ 1	\$5	\$ 5	\$133
Provision for restructuring reserves	8	4	3	2	—	17
Consumption of reserves	(106)	(16)	(2)	(5)	—	(129)
Reclassification of restructuring reserves ¹	(4)	—	—	—	—	(4)
Balance, July 28, 2013	\$4	4	2	\$2	\$ 5	\$17

¹ Includes reclassification of post-retirement benefit liability to other liabilities.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

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

Accumulated Other Comprehensive Income (Loss)

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

	July 28, 2013	October 28, 2012
	(In millions)	
Unrealized gain on investments, net	\$19	\$16
Unrealized gain on derivative instruments qualifying as cash flow hedges	6	1
Pension liability	(92	) (90
Cumulative translation adjustments	6	12
	\$(61	) \$(61

Stock Repurchase Program

On March 5, 2012, Applied's Board of Directors approved a stock repurchase program authorizing up to \$3.0 billion in repurchases over the next three years ending in March 2015. Under this authorization, Applied purchases 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. At July 28, 2013, \$1.6 billion remained available for future stock repurchases under this repurchase program.

The following table summarizes Applied's stock repurchases for the periods indicated:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions, except per share amounts)			
Shares of common stock repurchased	3	47	15	81
Cost of stock repurchased	\$50	\$500	\$198	\$900
Average price paid per share	\$15.33	\$10.71	\$13.18	\$11.09

Applied records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid in capital. If Applied reissues treasury stock at an amount below its acquisition cost and additional paid in capital associated with prior treasury stock transactions is insufficient to cover the difference between the acquisition cost and the reissue price, this difference is recorded against retained earnings.

Dividends

In June 2013, March 2013 and December 2012, Applied's Board of Directors declared a quarterly cash dividend in the amount of \$0.10, \$0.10 and \$0.09 per share, respectively. Dividends declared during the nine months ended July 28, 2013 and July 29, 2012 were \$348 million and \$330 million, respectively. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied's stockholders.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Share-Based Compensation

Applied has a stockholder-approved equity plan, the Employee Stock Incentive Plan, which permits grants to employees of share-based awards, including stock options, restricted stock, restricted stock units, performance shares and performance units. In addition, the 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. Share-based awards made beginning in March 2012 under the plan may be subject to accelerated vesting under certain circumstances in the event of a change in control of Applied. Applied also has two Employee Stock Purchase Plans, one generally for United States employees and a second for employees of international subsidiaries (collectively, ESPP), which enable eligible employees to purchase Applied common stock.

During the three and nine months ended July 28, 2013 and July 29, 2012, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock, restricted stock units, performance shares and performance units. Total share-based compensation and related tax benefits were as follows:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
Share-based compensation	\$40	\$42	\$121	\$138
Tax benefit recognized	\$11	\$12	\$34	\$39

The effect of share-based compensation on the results of operations for the three and nine months ended July 28, 2013 and July 29, 2012 was as follows:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
Cost of products sold	\$13	\$13	\$37	\$40
Research, development, and engineering	14	14	39	40
Marketing and selling	5	5	15	17
General and administrative	8	10	25	41
Restructuring charge	—	—	5	—
Total	\$40	\$42	\$121	\$138

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 July 28, 2013, Applied had \$270 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of share-based awards and shares issued under Applied's ESPP, which will be recognized over a weighted average period of 2.5 years. At July 28, 2013, there were 185 million shares available for grants of share-based awards under the Employee Stock Incentive Plan, and an additional 44 million shares available for issuance under the ESPP.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

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 employee stock options have characteristics significantly different from those of publicly traded options. There were no stock options granted during the three and nine months ended July 28, 2013 and July 29, 2012. As part of the acquisition of Varian in the first quarter of fiscal 2012, stock options to purchase 5 million shares of Applied common stock were assumed.

Stock option activity for the nine months ended July 28, 2013 was as follows:

	Shares	Weighted Average Exercise Price
	(In millions, except per share amounts)	
Outstanding at October 28, 2012	21	\$10.53
Granted	—	\$—
Exercised	(10	) \$8.00
Canceled and forfeited	(5	) \$17.63
Outstanding at July 28, 2013	6	\$8.69
Exercisable at July 28, 2013	6	\$8.77

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 generally 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, performance shares and performance units typically vest over four years and vesting is usually 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.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Restricted stock, performance shares and performance units granted to certain executive officers 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. The fair value of these performance-based awards is estimated on the date of 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 of generally three or four years, provided that the grantee remains employed by Applied through each scheduled vesting date. 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.

For performance-based awards granted during fiscal 2011 and fiscal 2010, the performance goals require (i) the achievement of targeted adjusted annual 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. Performance-based awards that do not become eligible to vest in a particular year may become eligible to vest 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.

In fiscal 2013 and fiscal 2012, the Committee granted performance-based awards that require the achievement of positive and relative adjusted operating profit margin goals in a manner generally similar to the previously granted performance-based awards. For the fiscal 2013 and fiscal 2012 awards, additional shares become eligible for time-based vesting if Applied achieves certain levels of 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.

A summary of the performance-based awards approved by the Committee is presented below:

Fiscal Year Granted	Number of Performance-Based Awards Granted Performance Shares/Performance Units (in millions)	Shares of Restricted Stock	Percent of Performance-Based Awards Earned as of July 28, 2013*
2013	3	—	0%
2012	3	1	14%
2011	2	0.1	100%
2010	2	0.1	82%

* subject to additional time-based vesting requirements

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

A summary of the changes in restricted stock units, restricted stock, performance shares and performance units outstanding under Applied's equity compensation plans during the nine months ended July 28, 2013 is presented below:

	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, performance shares and performance units at October 28, 2012	36	\$ 11.53	2.6 years
Granted	18	\$ 10.36	
Vested	(11	) \$ 11.46	
Canceled	(5	) \$ 11.33	
Non-vested restricted stock units, restricted stock, performance shares and performance units at July 28, 2013	38	\$ 11.03	2.7 years

At July 28, 2013, 2 million additional performance-based awards could be earned upon certain levels of achievement of Applied's TSR relative to a peer group at a future date.

Employee Stock Purchase Plans

Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning or end of each 6-month purchase period, subject to certain limits. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was \$2.90 and \$2.89 for the nine months ended July 28, 2013 and July 29, 2012, respectively. The number of shares issued under the ESPP during the nine months ended July 28, 2013 and July 29, 2012 was 3 million. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. Underlying assumptions used in the model are outlined in the following table:

	Nine Months Ended	
	July 28, 2013	July 29, 2012
ESPP:		
Dividend yield	2.94%	2.94%
Expected volatility	24.3%	33.0%
Risk-free interest rate	0.12%	0.12%
Expected life (in years)	0.5	0.5

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 12 Employee Benefit Plans

Applied sponsors a number of employee benefit plans, including defined benefit plans of certain foreign subsidiaries, and a plan that provides certain medical and vision benefits to eligible retirees. A summary of the components of net periodic benefit costs of these defined and postretirement benefit plans for the three and nine months ended July 28, 2013 and July 29, 2012 is presented below:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
Service cost	\$5	\$4	\$15	\$12
Interest cost	4	4	12	11
Expected return on plan assets	(3	) (2	) (9	) (8
Amortization of actuarial loss	1	—	4	1
Net periodic benefit cost	\$7	\$6	\$22	\$16

Note 13 Income Taxes

Applied's effective tax rates for the third quarter of fiscal 2013 and 2012 were 26.3 percent and 27.8 percent, respectively. The effective tax rate for the third quarter of fiscal 2013 decreased compared to the same period in the prior year primarily due to changes in the geographic composition of income, including jurisdictions with tax incentives, and benefits resulting from resolution of prior years' income tax filings.

Applied's effective tax rates for the first nine months of fiscal 2013 and 2012 were 53.2 percent and 26.4 percent, respectively. The effective tax rate for the first nine months of fiscal 2013 increased compared to the same period in the prior year primarily due to the goodwill impairment charge recorded in the second quarter of fiscal 2013 that was not deductible. The effective tax rate for the first nine months of fiscal 2013 also reflected a \$14 million benefit resulting from the resolution of prior years' income tax filings and a \$13 million benefit from the reinstatement of the U.S. federal research and development tax credit retroactive to January 1, 2012 during fiscal 2013. The effective tax rates were further affected by changes in the geographic composition of income, including jurisdictions 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 effective income tax rate accordingly.

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 and non-current assets and liabilities. Applied does not expect a material change in unrecognized tax benefits in the next 12 months.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 14 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three and nine months ended July 28, 2013 and July 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
Beginning balance	\$104	\$152	\$119	\$168
Provisions for warranty	27	25	76	87
Consumption of reserves	(31	) (40	) (95	) (118
Ending balance	\$100	\$137	\$100	\$137

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

Guarantees

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of July 28, 2013, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately \$41 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 July 28, 2013, Applied Materials, Inc. has provided parent guarantees to banks for approximately \$102 million to cover these arrangements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

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 Asia since 2003 involving technology used in manufacturing liquid crystal displays (LCDs), including the following. In 2004, Applied filed a complaint for patent infringement against Jusung in the Hsinchu District Court in Taiwan seeking damages and a permanent injunction for infringement of a patent related to chemical vapor deposition (CVD) equipment, and Jusung filed a counterclaim. On December 31, 2010, the Hsinchu District Court dismissed both actions. Both parties appealed to the Taiwan Intellectual Property Court, and on August 12, 2013, the Court dismissed both appeals. In 2009, Jusung filed an action seeking invalidation of Applied's CVD patent in the Taiwan Intellectual Property Office which remains pending but which Applied does not believe is material.

Korea Criminal Proceedings

In 2010, the Seoul Eastern District Court began hearings on indictments brought by the Seoul Prosecutor's Office for the Eastern District of Korea (the Prosecutor's Office) alleging that employees of several companies improperly received and used confidential information belonging to Samsung Electronics Co., Ltd. (Samsung), a major Applied customer based in Korea. 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. Neither Applied nor any of its subsidiaries was named as a party to the proceedings. Hearings on these matters concluded in November 2012 and the Court issued its decision on February 7, 2013. As part of the ruling, nine AMK employees (including the former head of AMK) were acquitted of all charges, while one AMK employee was found guilty on some of the charges and received a suspended jail sentence. The Prosecutor's Office has filed notices of appeal.

Other Matters

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, claims and proceedings cannot be predicted with certainty, Applied does not believe that any will have a material adverse effect on its consolidated financial condition or results of operations.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 15 Industry Segment Operations

Applied's four reportable segments are: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. As defined in the accounting literature, Applied's chief operating decision-maker are its Chief Executive Officer and its President, who both review operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Applied's management organization structure as of July 28, 2013 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 actions 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.

The Silicon Systems Group segment includes semiconductor capital equipment for etch, rapid thermal processing, deposition, chemical mechanical planarization, metrology and inspection, wafer packaging, and ion implantation. The Applied Global Services segment includes technically differentiated products and services to improve operating efficiency, reduce operating costs and lessen the environmental impact of semiconductor, display and solar customers' factories. Applied Global Services' products consist of spares, services, certain earlier generation products, remanufactured equipment, and products that have reached a particular stage in the product lifecycle. Customer demand for these products and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites.

The Display segment includes products for manufacturing LCDs, organic light-emitting diodes (OLEDs), 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 crystalline-silicon (c-Si) solar photovoltaic cells and modules. This segment also includes products for high throughput roll-to-roll deposition equipment for flexible electronics and other applications.

With the acquisition of Varian, Applied acquired ion implantation technology for semiconductor as well as for c-Si solar cell manufacturing, which was recorded under the Silicon Systems Group segment in fiscal 2012. In fiscal 2013, Applied began marketing the solar implant products commercially through its Energy and Environmental Solutions segment. Accordingly, effective in the first quarter of fiscal 2013, Applied accounts for its solar implant products under the Energy and Environmental Solutions segment. The effect of the solar implant products was not material to the operations of either the Silicon Systems Group or Energy and Environmental Solutions segments.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Net sales and operating income (loss) for each reportable segment for the three and nine months ended July 28, 2013 and July 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
	(In millions)			
July 28, 2013:				
Silicon Systems Group	\$1,272	\$246	\$3,532	\$663
Applied Global Services	497	114	1,485	321
Display	161	33	375	55
Energy and Environmental Solutions	45	(27)	129	(403)
Total Segment	\$1,975	\$366	\$5,521	\$636
July 29, 2012:				
Silicon Systems Group	\$1,545	\$427	\$4,666	\$1,202
Applied Global Services	579	122	1,664	338
Display	142	10	380	23
Energy and Environmental Solutions	77	(102)	363	(188)
Total Segment	\$2,343	\$457	\$7,073	\$1,375

Operating results for the three and nine months ended July 28, 2013 and July 29, 2012 included restructuring charges and asset impairments as discussed in detail in Note 10, Restructuring Charges and Asset Impairments.

Reconciliations of total segment operating results to Applied consolidated totals for the three and nine months ended July 28, 2013 and July 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
	(In millions)			
Total segment operating income	\$366	\$457	\$636	\$1,375
Corporate and unallocated costs	(112)	(135)	(403)	(465)
Restructuring charges and asset impairments	(4)	—	(12)	—
Income from operations	\$250	\$322	\$221	\$910

The following companies accounted for at least 10 percent of Applied's net sales for the nine months ended July 28, 2013, which were for products in multiple reportable segments.

	Percentage of Net Sales	
		%
Taiwan Semiconductor Manufacturing Company Limited	29	%

Samsung Electronics Co., Ltd.

15

%

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis is provided in addition to the accompanying consolidated condensed financial statements and notes to assist in understanding Applied's results of operations and financial condition. Financial information as of July 28, 2013 should be read in conjunction with the financial statements for the fiscal year ended October 28, 2012 contained in the Company's Form 10-K filed December 5, 2012.

All statements in this report and those made by the management of Applied, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include those regarding Applied's future financial or operating results, cash flows and cash deployment strategies, declaration of dividends, share repurchases, restructuring activities, business strategies, costs, products, competitive positions, management's plans and objectives for future operations, research and development, acquisitions and joint ventures, growth opportunities, customers, working capital, liquidity, investment portfolio and policies, and legal proceedings and claims, as well as industry trends and outlooks. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "potential" and "continue," the negative of these terms, or other comparable terminology. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Any expectations based on forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in Part II, Item 1A, "Risk Factors" below and elsewhere in this report. These and many other factors could affect Applied's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Applied undertakes no obligation to revise or update any forward-looking statements.

Overview

Applied provides manufacturing equipment, services and software to the global semiconductor, flat panel display, solar photovoltaic (PV) and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, flat panel liquid crystal and other displays, solar PV cells and modules, and other electronic devices. These customers may use what they manufacture in their own end products or sell the items to other companies for use in advanced electronic components. Applied operates in four reportable segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A summary of financial information for each reportable segment is found in Note 15 of Notes to Consolidated Condensed Financial Statements. A discussion of factors that could affect Applied's operations is set forth under "Risk Factors" in Part II, Item 1A, which is incorporated herein by reference. Product development and manufacturing activities occur primarily in the United States, Europe, Israel and Asia. Applied's broad range of equipment and service products are highly technical and are sold primarily through a direct sales force.

Applied's results are driven primarily by worldwide demand for semiconductors, which in turn depends on end-user demand for electronic products. Each of Applied's businesses is subject to highly cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, liquid crystal displays (LCDs), solar PVs and other electronic devices, as well as other factors, such as global economic and market conditions, and technological advances in fabrication processes. In light of this cyclicity, Applied's results can vary significantly year-over-year, as well as quarter-over-quarter.

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The following tables presents certain significant measurements for the periods indicated:

	Three Months Ended			Change Q3 2013 over Q2 2013	Q3 2013 over Q3 2012
	July 28, 2013	April 28, 2013	July 29, 2012		
(In millions, except per share amounts and percentages)					
New orders	\$1,995	\$2,266	\$1,799	\$(271)	) \$196
Net sales	\$1,975	\$1,973	\$2,343	\$2	\$(368)
Gross margin	\$806	\$808	\$930	\$(2)	) \$(124)
Gross margin percent	40.8	% 41.0	% 39.7	% (0.2) point	1.1 points
Operating income (loss)	\$250	\$(68)	) \$322	\$318	\$(72)
Operating margin percent	12.7	% (3.4)	)% 13.7	% 16.1 points	(1.0) point
Net income (loss)	\$168	\$(129)	) \$218	\$297	\$(50)
Earnings (loss) per diluted share	\$0.14	\$(0.11)	) \$0.17	\$0.25	\$(0.03)
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross margin	\$847	\$852	\$974	\$(5)	) \$(127)
Non-GAAP adjusted gross margin percent	42.9	% 43.2	% 41.6	% (0.3) point	1.3 points
Non-GAAP adjusted operating income	\$312	\$285	\$431	\$27	\$(119)
Non-GAAP adjusted operating margin percent	15.8	% 14.4	% 18.4	% 1.4 points	(2.6) points
Non-GAAP adjusted net income	\$223	\$199	\$300	\$24	\$(77)
Non-GAAP adjusted earnings per diluted share	\$0.18	\$0.16	\$0.24	\$0.02	\$(0.06)
	Nine Months Ended			Change YTD Q3 2013 over YTD Q3 2012	
	July 28, 2013	July 29, 2012			
(In millions, except per share amounts and percentages)					
New orders	\$6,374	\$6,572	\$(198))	
Net sales	\$5,521	\$7,073	\$(1,552))	
Gross margin	\$2,196	\$2,726	\$(530))	
Gross margin percent	39.8	% 38.5	% 1.3 points)	
Operating income	\$221	\$910	\$(689))	
Operating margin percent	4.0	% 12.9	% (8.9) points)	
Net income	\$73	\$624	\$(551))	
Earnings per diluted share	\$0.06	\$0.48	\$(0.42))	
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross margin	\$2,325	\$2,935	\$(610))	
Non-GAAP adjusted gross margin percent	42.1	% 41.5	% 0.6 point)	
Non-GAAP adjusted operating income	\$709	\$1,266	\$(557))	
Non-GAAP adjusted operating margin percent	12.8	% 17.9	% (5.1) points)	
Non-GAAP adjusted net income	\$491	\$889	\$(398))	
Non-GAAP adjusted earnings per diluted share	\$0.40	\$0.69	\$(0.29))	

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below. Fiscal 2013 and 2012 each contain 52 weeks, and the first nine months of both fiscal years each contained 39 weeks.

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Mobility continued to be the largest influence on semiconductor industry spending during the third quarter of fiscal 2013. The first half of fiscal 2013 was characterized by strong demand for semiconductor equipment by foundry customers. In the third quarter of fiscal 2013, demand from foundry customers softened from the prior quarter, reflecting seasonal consumer buying patterns for mobility products, while demand from memory and logic customers improved. Mobility also represents a significant driver of display industry spending, with demand for mobile display equipment remaining strong during the third quarter of fiscal 2013. Demand for LCD TV manufacturing equipment also increased during the third quarter of fiscal 2013 on higher consumer demand in emerging markets and demand for larger LCD TVs. Investment in solar equipment remained low during the third quarter of fiscal 2013 due to continued excess manufacturing capacity in the industry.

Results of Operations

New Orders

New orders by reportable segment for the periods indicated were as follows:

	Three Months Ended						Change	
	July 28, 2013		April 28, 2013		July 29, 2012		Q3 2013 over Q2 2013	Q3 2013 over Q3 2012
	(In millions, except percentages)							
Silicon Systems Group	\$1,203	60%	\$1,551	68%	\$1,166	65%	(22)%	3%
Applied Global Services	517	26%	481	21%	531	29%	7%	(3)%
Display	256	13%	195	9%	67	4%	31%	282%
Energy and Environmental Solutions	19	1%	39	2%	35	2%	(51)%	(46)%
Total	\$1,995	100%	\$2,266	100%	\$1,799	100%	(12)%	11%
	Nine Months Ended						Change	
	July 28, 2013		July 29, 2012				YTD Q3 2013 over YTD Q3 2012	
	(In millions, except percentages)							
Silicon Systems Group	\$4,117	65%	\$4,552	69%			(10)%	
Applied Global Services	1,542	24%	1,697	26%			(9)%	
Display	589	9%	192	3%			207%	
Energy and Environmental Solutions	126	2%	131	2%			(4)%	
Total	\$6,374	100%	\$6,572	100%			(3)%	

New orders for the third quarter of fiscal 2013 decreased compared to the prior quarter due to lower demand for semiconductor equipment, partially offset by increased demand for LCD TV equipment. The Silicon Systems Group's proportion of total new orders relative to other segments decreased compared to the prior quarter but still comprise the majority of the Company's total new orders.

New orders for the third quarter of fiscal 2013 increased compared to the same period in fiscal 2012, primarily as a result of improvement in demand for LCD TV equipment. New orders for the first nine months of fiscal 2013 slightly decreased from the comparable period in fiscal 2012, mainly due to lower demand for semiconductor equipment and service products, partially offset by increased demand for LCD TV equipment.

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New orders by geographic region, determined by the product shipment destination specified by the customer, were as follows:

	Three Months Ended						Change		
	July 28, 2013		April 28, 2013		July 29, 2012		Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	
	(In millions, except percentages)								
Taiwan	\$356	18%	\$902	40%	\$588	33%	(61)%	(39)%	
China	339	17%	276	12%	101	6%	23%	236%	
Korea	249	12%	259	11%	299	17%	(4)%	(17)%	
Japan	333	17%	191	8%	128	7%	74%	160%	
Southeast Asia	124	6%	67	3%	91	5%	85%	36%	
Asia Pacific	1,401	70%	1,695	74%	1,207	68%	(17)%	16%	
United States	369	19%	398	18%	420	23%	(7)%	(12)%	
Europe	225	11%	173	8%	172	9%	30%	31%	
Total	\$1,995	100%	\$2,266	100%	\$1,799	100%	(12)%	11%	
			Nine Months Ended					Change	
			July 28, 2013		July 29, 2012		YTD Q3 2013 over YTD Q3 2012		
	(In millions, except percentages)								
Taiwan	\$2,164		34%		\$1,765	27%	23%		
China	853		14%		302	5%	182%		
Korea	706		11%		1,670	25%	(58)%		
Japan	705		11%		416	6%	69%		
Southeast Asia	256		4%		209	3%	22%		
Asia Pacific	4,684		74%		4,362	66%	7%		
United States	1,158		18%		1,559	24%	(26)%		
Europe	532		8%		651	10%	(18)%		
Total	\$6,374		100%		\$6,572	100%	(3)%		

The decrease in new orders from customers in Taiwan in the third quarter of fiscal 2013 compared to the prior quarter primarily reflected lower demand for semiconductor equipment from foundry customers, while the increase in new orders from customers in Japan was due to improved demand for semiconductor equipment from memory customers. The increase in new orders from customers in China reflected increased demand for LCD TV equipment. The increase in new orders from customers in China in the third quarter and first nine months of fiscal 2013 from the comparable periods in the prior year was primarily due to improved demand for LCD TV equipment. The changes in new orders for these same periods from Japan, Korea, Taiwan and North America were primarily due to changes in relative demand for semiconductor equipment among foundry, memory and logic customers.

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Changes in backlog during the nine months ended July 28, 2013 were as follows:

	July 28, 2013 (In millions)
Beginning balance	\$1,606
New orders	6,374
Net sales	(5,521)
Net adjustments	(170)
Ending balance	\$2,289

Backlog consists of: (1) orders for which written authorizations have been accepted and assigned shipment dates are within the next 12 months, or shipment has occurred but revenue has not been recognized; and (2) contractual service revenue and maintenance fees to be earned within the next 12 months. Applied's backlog at any particular time is not necessarily indicative of actual sales for any future periods due to the potential for customer changes in delivery schedules or cancellation of orders. Backlog adjustments included \$137 million of order cancellations and other adjustments for items not meeting above criteria, as well as \$33 million of currency adjustments. Approximately 82 percent of the backlog as of the end of the third quarter of fiscal 2013 is anticipated to be shipped within the next two quarters.

Backlog by reportable segment as of the end of the most recent three fiscal quarters was as follows:

	July 28, 2013		April 28, 2013		January 27, 2013		Q3 2013 over Q2 2013	Q3 2013 over Q1 2013
	(In millions, except percentages)							
Silicon Systems Group	\$1,171	51%	\$1,261	55%	\$1,076	51%	(7)%	9%
Applied Global Services	585	26%	572	25%	633	30%	2%	(8)%
Display	409	18%	315	14%	246	12%	30%	66%
Energy and Environmental Solutions	124	5%	149	6%	151	7%	(17)%	(18)%
Total	\$2,289	100%	\$2,297	100%	\$2,106	100%	—%	9%

Total backlog remained essentially flat in the third quarter of fiscal 2013 compared to the prior quarter, while the backlog composition changed due to increased demand for LCD TV equipment and lower demand for semiconductor equipment. In the third quarter of fiscal 2013, approximately 45 percent of net sales in the Silicon Systems Group, Applied's largest business segment, were for orders received and shipped within the quarter, down from 61 percent in the prior quarter.

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Net Sales

Net sales by reportable segment for the periods indicated were as follows:

	Three Months Ended						Change Q3 2013 over Q2 2013	Q3 2013 over Q3 2012
	July 28, 2013		April 28, 2013		July 29, 2012			
	(In millions, except percentages)							
Silicon Systems Group	\$1,272	65%	\$1,291	65%	\$1,545	66%	(1)%	(18)%
Applied Global Services	497	25%	517	26%	579	25%	(4)%	(14)%
Display	161	8%	127	7%	142	6%	27%	13%
Energy and Environmental Solutions	45	2%	38	2%	77	3%	18%	(42)%
Total	\$1,975	100%	\$1,973	100%	\$2,343	100%	—%	(16)%
			Nine Months Ended				Change	
			July 28, 2013		July 29, 2012		YTD Q3 2013 over YTD Q3 2012	
	(In millions, except percentages)							
Silicon Systems Group	\$3,532	64%	\$4,666	66%			(24)%	
Applied Global Services	1,485	27%	1,664	24%			(11)%	
Display	375	7%	380	5%			(1)%	
Energy and Environmental Solutions	129	2%	363	5%			(64)%	
Total	\$5,521	100%	\$7,073	100%			(22)%	

Net sales were essentially flat for the third quarter of fiscal 2013 compared to the prior quarter. During the third quarter of fiscal 2013, increased investments in LCD TV equipment were offset by lower investments in semiconductor equipment from foundry customers. The Silicon Systems Group's relative share of total net sales remained unchanged compared to the prior quarter and remains the largest contributor of net sales.

For the third quarter of fiscal 2013 compared to the same period in the prior year, net sales decreased due to lower customer investments in semiconductor and solar equipment, partially offset by increased investments in LCD TV equipment. For the first nine months of fiscal 2013 compared to the same period in the prior year, net sales decreased across all segments.

The Silicon Systems Group and Applied Global Services comprised at least 90 percent of Applied's total net sales for all periods presented.

Net sales by geographic region, determined by the location of customers' facilities to which products were shipped, were as follows:

	Three Months Ended						Change Q3 2013 over Q2 2013	Q3 2013 over Q3 2012
	July 28, 2013		April 28, 2013		July 29, 2012			
	(In millions, except percentages)							
Taiwan	\$658	33%	\$828	42%	\$811	34%	(21)%	(19)%
China	273	14%	183	9%	254	11%	49%	7%
Korea	262	13%	226	12%	392	17%	16%	(33)%
Japan	154	8%	157	8%	189	8%	(2)%	(19)%
Southeast Asia	100	5%	73	4%	72	3%	37%	39%
Asia Pacific	1,447	73%	1,467	75%	1,718	73%	(1)%	(16)%

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United States	353	18%	362	18%	441	19%	(2)%	(20)%
Europe	175	9%	144	7%	184	8%	22%	(5)%
Total	\$1,975	100%	\$1,973	100%	\$2,343	100%	—%	(16)%

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	Nine Months Ended				Change YTD Q3 2013 over YTD Q3 2012
	July 28, 2013		July 29, 2012		
	(In millions, except percentages)				
Taiwan	\$2,051	37%	\$1,954	28%	5%
China	583	11%	592	8%	(2)%
Korea	693	13%	1,770	25%	(61)%
Japan	409	7%	574	8%	(29)%
Southeast Asia	231	4%	215	3%	7%
Asia Pacific	3,967	72%	5,105	72%	(22)%
United States	1,116	20%	1,376	20%	(19)%
Europe	438	8%	592	8%	(26)%
Total	\$5,521	100%	\$7,073	100%	(22)%

The increase in net sales from customers in China in the third quarter of fiscal 2013 compared to the prior quarter primarily reflected higher investments in LCD TV equipment, while the decrease in net sales from customers in Taiwan was mainly due to reduced investments in semiconductor equipment from foundry customers.

The decrease in net sales from customers in Korea, United States and Europe in the third quarter and first nine months of fiscal 2013 compared to the same periods in the prior year was primarily due to lower investment in semiconductor equipment and changes in customer mix.

Gross Margin

Gross margins for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change YTD Q3 2013 over YTD Q3 2012
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	July 28, 2013	July 29, 2012	
	(In millions, except percentages)							
Gross margin	\$806	\$808	\$930	\$(2)	\$(124)	\$2,196	\$2,726	\$(530)
Gross margin percent	40.8	% 41.0	% 39.7	% (0.2) point	1.1 points	39.8	% 38.5	% 1.3 points
Non-GAAP Adjusted Results								
Non-GAAP adjusted gross margin	\$847	\$852	\$974	\$(5)	\$(127)	\$2,325	\$2,935	\$(610)
Non-GAAP adjusted gross margin percent	42.9	% 43.2	% 41.6	% (0.3) point	1.3 points	42.1	% 41.5	% 0.6 point

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.

Gross margin and non-GAAP adjusted gross margin, as well as gross margin percent and non-GAAP adjusted gross margin percent were essentially flat in the third quarter of fiscal 2013 as compared to the prior quarter, with the slight changes driven mostly by an unfavorable change in product mix. Gross margin and non-GAAP adjusted gross margin in the third quarter and first nine months of fiscal 2013 decreased from the comparable periods in the prior year primarily reflecting lower net sales. Gross margin percent and non-GAAP adjusted gross margin percent in the third

quarter and first nine months of fiscal 2013 increased slightly from the comparable periods in the prior year primarily due to lower inventory charges and a favorable change in product mix. Gross margin and non-GAAP adjusted gross margin during the three months ended July 28, 2013, April 28, 2013 and July 29, 2012 included \$13 million, \$12 million and \$13 million, respectively, of share-based compensation expense. Gross margin and non-GAAP adjusted gross margin during the nine months ended July 28, 2013 and July 29, 2012 included \$37 million and \$40 million, respectively, of share-based compensation expense.

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Research, Development and Engineering

Research, Development and Engineering (RD&E) expenses for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	July 28, 2013	July 29, 2012	YTD Q3 2013 over YTD Q3 2012
	(In millions)							
Research, development and engineering	\$334	\$344	\$309	\$(10	) \$25	\$982	\$933	\$49

Applied's future operating results depend to a considerable extent on its ability to maintain a competitive advantage in the equipment and service products it provides. Applied believes that it is critical to continue to make substantial investments in RD&E to assure the availability of innovative technology that meets the current and projected requirements of its customers' most advanced designs. Applied historically has maintained its commitment to investing in RD&E in order to continue to offer new products and technologies. Development cycles range from 12 to 36 months depending on whether the product is an enhancement of an existing product, which typically has a shorter development cycle, or a new product, which typically has a longer development cycle. Most of Applied's existing products resulted from internal development activities and innovations involving new technologies, materials and processes. In certain instances, Applied acquires technologies, either in existing or new product areas, to complement its existing technology capabilities and to reduce time to market.

As a result of the Company's actions, including workforce reductions and reprioritization of existing spending, Applied is increasing funding for investments in technical capabilities and critical R&D programs in current and new markets, with a focus on semiconductor technologies. Consequently, RD&E expenses increased in the third quarter and first nine months of fiscal 2013 compared to the same periods in the prior year. The decrease in RD&E expenses in the third quarter of fiscal 2013 compared to the prior quarter was primarily due to lower variable compensation. RD&E expense during the three months ended July 28, 2013, April 28, 2013 and July 29, 2012 included \$14 million, \$13 million and \$14 million, respectively, of share-based compensation expense. RD&E expense during the nine months ended July 28, 2013 and July 29, 2012 included \$39 million and \$40 million, respectively, of share-based compensation expense.

Marketing and Selling

Marketing and selling expenses for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change	
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	July 28, 2013	July 29, 2012	YTD Q3 2013 over YTD Q3 2012	
	(In millions)								
Marketing and selling	\$111	\$118	\$118	\$(7) \$(7) \$334	\$374	\$(40)

Marketing and selling expenses for the third quarter of fiscal 2013 decreased slightly from the prior quarter and from the same period in fiscal 2012. The decrease in marketing and selling expenses for the first nine months of fiscal 2013 compared to the same period in fiscal 2012 was primarily attributable to savings from restructuring programs and the absence of provision for bad debts during the first nine months of fiscal 2013. Marketing and selling expenses during the three months ended July 28, 2013, April 28, 2013 and July 29, 2012 each included \$5 million of share-based compensation. Marketing and selling expenses during the nine months ended July 28, 2013 and July 29, 2012 included \$15 million and \$17 million, respectively, of share-based compensation.

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General and Administrative

General and administrative (G&A) expenses for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change YTD Q3 2013 over YTD Q3 2012
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	July 28, 2013	July 29, 2012	
	(In millions)							
General and administrative	\$97	\$126	\$137	\$(29)	\$(40)	\$348	\$465	\$(117)

G&A expenses for the third quarter of fiscal 2013 decreased from the prior quarter due to lower variable compensation, savings from temporary shutdowns and continued cost reduction activities. The decrease in G&A expenses for the third quarter and first nine months of fiscal 2013 compared to the same periods in fiscal 2012 was primarily attributable to savings from restructuring programs and the absence of certain costs incurred during fiscal 2012 associated with the acquisition of Varian, including share-based compensation for accelerated vesting of certain awards. G&A expenses during the three months ended July 28, 2013, April 28, 2013 and July 29, 2012 included \$8 million, \$8 million and \$10 million, respectively, of share-based compensation. G&A expenses during the nine months ended July 28, 2013 and July 29, 2012 included \$25 million and \$41 million, respectively, of share-based compensation.

Impairment of Goodwill and Intangible Assets

During the second quarter of fiscal 2013, the solar industry experienced further deterioration of market conditions associated with continued manufacturing overcapacity and weaker operating performance and outlook, resulting in increased uncertainties regarding the timing and nature of a recovery in solar capital equipment expenditures. Taking these factors into account, Applied reassessed its financial outlook for the Energy and Environmental Solutions reporting unit and consequently reevaluated the recoverability of this reporting unit's goodwill. Applied performed the two-step impairment test and concluded that the Energy and Environmental Solutions reporting unit's carrying value exceeded its fair value. Based on Applied's analyses, the implied fair value of goodwill was substantially lower than the carrying value of goodwill for the reporting unit. As a result, in the second quarter of fiscal 2013, Applied recorded a goodwill impairment charge of \$224 million, representing all of the remaining goodwill for this reporting unit. Applied also performed an impairment test for long-lived assets associated with the reporting unit and determined that a majority of intangible assets were impaired mostly due to the lower long-term revenue and profitability outlook associated with the products related to these intangible assets. Accordingly, during the second quarter of fiscal 2013, Applied recorded an impairment charge of \$54 million related to these intangible assets, which was the amount by which the carrying value of these intangible assets exceeded their estimated fair value, based on discounted projected cash flows.

The evaluation of goodwill and intangible assets for impairment requires the exercise of significant judgment. In the event of future changes in business conditions, Applied will be required to reassess and update its forecasts and estimates used in future impairment analyses. If the results of these future analyses are lower than current estimates, a material impairment charge may result at that time.

For further details, see Note 8 of Notes to Consolidated Condensed Financial Statements.

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Restructuring Charges and Asset Impairments

Restructuring charges and asset impairments for the periods indicated were as follows:

Three Months Ended			Change		Nine Months Ended		Change	
July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	July 28, 2013	July 29, 2012	YTD Q3 2013 over YTD Q3 2012	
(In millions)								
Restructuring charges and asset impairments	\$14	\$10	\$44	\$4	\$(30)	\$33	\$44	\$(11)

On October 3, 2012, Applied announced a restructuring plan (the 2012 Global Restructuring Plan) to realign its global workforce and enhance its ability to invest for growth. Under this plan, Applied implemented a voluntary retirement program and other workforce reduction actions that were expected to affect approximately 900 to 1,300 positions, or 6 percent to 9 percent of its global workforce. In connection with the 2012 Global Restructuring Plan, Applied expects to incur aggregate pre-tax restructuring charges comprised of severance and other termination benefits in the range of \$120 million to \$160 million (including costs incurred to date of \$118 million discussed below). Applied expected to substantially complete this plan by the end of the third quarter of fiscal 2013. Applied has extended this plan and expects to substantially complete it by the end of the first quarter of fiscal 2014.

During the third quarter and first nine months of fiscal 2013, Applied recognized \$4 million and \$12 million of employee-related costs in connection with the 2012 Global Restructuring Plan, respectively. These costs were not allocated to the segments. Applied has incurred aggregate pre-tax restructuring charges comprised of severance and other termination benefits of \$118 million under this plan.

On May 10, 2012, Applied announced a plan (the 2012 EES Restructuring Plan) to restructure its Energy and Environmental Solutions segment in light of challenging industry conditions affecting the solar photovoltaic and light-emitting diode (LED) equipment markets. As part of the 2012 EES Restructuring Plan, Applied relocated certain manufacturing, business operations and customer support functions of its precision wafering systems business, and ceased LED development activities. As the Energy and Environmental Solutions segment continues to consolidate infrastructure and reduce its operating expenses, Applied expects approximately 150 additional positions to be impacted globally. No changes in the estimated pre-tax cost of the implementation of this plan are anticipated. During the third quarter and first nine months of fiscal 2013, Applied recognized \$10 million and \$19 million of restructuring and asset impairment charges in connection with this plan, which were primarily reported in the Energy and Environmental Solutions segment. As of July 28, 2013, total costs incurred in implementing this plan were \$80 million, of which \$13 million were inventory-related charges.

Also, during the first nine months of fiscal 2013, Applied incurred severance costs of \$2 million associated with the integration of Varian.

For further details, see Note 10 of Notes to Consolidated Condensed Financial Statements.

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Interest and Other Expenses

Interest and other expenses for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change YTD Q3 2013 over YTD Q3 2012
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	July 28, 2013	July 29, 2012	
(In millions)								
Interest and other expense	\$23	\$24	\$24	\$(1)	\$(1)	\$71	\$72	\$(1)

Interest and other expense remained essentially flat in the third quarter of fiscal 2013 compared to the prior quarter and for the third quarter and the first nine months of fiscal 2013 compared to the comparable periods in fiscal 2012. Interest expenses incurred were primarily associated with the senior unsecured notes issued in June 2011.

Interest and Other Income, net

Interest and other income, net for the periods indicated was as follows:

	Three Months Ended			Change		Nine Months Ended		Change YTD Q3 2013 over YTD Q3 2012
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	July 28, 2013	July 29, 2012	
(In millions)								
Interest and other income, net	\$4	\$4	\$4	\$—	\$—	\$11	\$13	\$(2)

Interest and other income, net remained essentially flat in the third quarter and first nine months of fiscal 2013 compared to the prior quarter and to the comparable periods in fiscal 2012. Interest and other income, net primarily includes interest earned on cash and investments and realized gains on sale of securities.

Income Taxes

Income tax expenses for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change YTD Q3 2013 over YTD Q3 2012
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	July 28, 2013	July 29, 2012	
(In millions, except percentages)								
Provision for income taxes	\$60	\$39	\$84	\$21	\$(24)	\$83	\$224	\$(141)
Effective tax rate	26.3	% (43.3)	% 27.8	% 69.6 points	(1.5) points	53.2	% 26.4	% 26.8 points

The effective tax rates for the third and second quarters of fiscal 2013 were 26.3 percent and negative 43.3 percent, respectively. The change in the effective tax rate for the third quarter of fiscal 2013 from the prior quarter was primarily due to the goodwill impairment charge recorded in the second quarter of fiscal 2013 that was not deductible. The goodwill impairment charge also resulted in an income tax provision on a loss before income taxes that caused a negative effective tax rate for the second quarter of fiscal 2013.

The effective tax rate for the third quarter of fiscal 2013 decreased compared to the same period in the prior year primarily due to changes in the geographic composition of income, including jurisdictions with tax incentives, and benefits resulting from resolution of prior years' income tax filings.

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The effective tax rate increased for the first nine months of fiscal 2013 compared to the same period in the prior year primarily due to the goodwill impairment charge recorded in the prior quarter that was not deductible. The effective tax rate for the first nine months of fiscal 2013 also reflected a \$14 million benefit resulting from the resolution of prior years' income tax filings and a \$13 million benefit from the reinstatement of the U.S. federal research and development tax credit, retroactive to January 1, 2012.

The effective tax rates for the periods presented were also affected by changes in geographic composition of income, including income outside the U.S. in jurisdictions with tax incentives. Applied's effective income tax rate depends on various factors, such as tax legislation and the geographic composition of Applied's pre-tax income.

Segment Information

Applied reports financial results in four segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A description of the products, as well as financial data, for each reportable segment can be found in Note 15 of Notes to Consolidated Condensed Financial Statements. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level. These unallocated costs include costs for share-based compensation; certain management, finance, legal, human resources, and RD&E functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment. The results for each reportable segment are discussed below.

Silicon Systems Group Segment

The Silicon Systems Group segment includes semiconductor capital equipment for deposition, etch, ion implantation, rapid thermal processing, chemical mechanical planarization, metrology and inspection, and wafer packaging. Development efforts are focused on solving customers' key technical challenges in transistor, patterning, interconnect and packaging performance as devices scale to advanced technology nodes. The mobility trend remains the largest influence on industry spending, as it drives device manufacturers to deliver high-performance, low-power processors and affordable solid-state storage in a small form factor.

The competitive environment for the Silicon Systems Group in the first nine months of fiscal 2013 reflected continued investment in the semiconductor industry, driven by the demands of mobile computing. Foundry customers remain the primary driver of net sales of the Silicon Systems Group. As manufacturers of DRAM and NAND balance supply with demand in their markets, capacity requirements improved moderately from the same period last year. Memory spending remained focused on technology conversions to fulfill growing demand for mobility-related end markets. With the acquisition of Varian, Applied acquired ion implantation technology for semiconductor as well as c-Si solar cell manufacturing, which was recorded under the Silicon Systems Group segment in fiscal 2012. In fiscal 2013, Applied began marketing the solar implant products commercially through its Energy and Environmental Solutions segment. Accordingly, effective in the first quarter of fiscal 2013, Applied accounts for its solar implant products under the Energy and Environmental Solutions segment. The effect of the solar implant products was not material to the operations of either the Silicon Systems Group or Energy and Environmental Solutions segments.

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Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013		Q3 2013 over Q3 2012	
	(In millions, except percentages and ratios)						
New orders	\$ 1,203	\$ 1,551	\$ 1,166	\$(348)	) (22)%	\$ 37	3%
Net sales	1,272	1,291	1,545	(19)	) (1)%	(273)	) (18)%
Book to bill ratio	0.9	1.2	0.8				
Operating income	246	283	427	(37)	) (13)%	(181)	) (42)%
Operating margin	19.3	% 21.9	% 27.6	%	(2.6) points		(8.3) points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	\$ 283	\$ 329	\$ 482	(46)	) (14)%	(199)	) (41)%
Non-GAAP adjusted operating margin percent	22.2	% 25.5	% 31.2	%	(3.3) points		(9.0) points

	Nine Months Ended			Change			
	July 28, 2013	July 28, 2013	July 29, 2012	YTD Q3 2013 over YTD Q3 2012			
	(In millions, except percentages and ratios)						
New orders	\$ 4,117		\$ 4,552	\$(435)	) (10)%		
Net sales	3,532		4,666	(1,134)	) (24)%		
Book to bill ratio	1.2		1.0				
Operating income	663		1,202	(539)	) (45)%		
Operating margin	18.8	%	25.8	%	(7.0) points		
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	\$ 792		\$ 1,442	(650)	) (45)%		
Non-GAAP adjusted operating margin percent	22.4	%	30.9	%	(8.5) points		

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.

New orders for the Silicon Systems Group by end use application for the periods indicated were as follows:

	Three Months Ended			Nine Months Ended	
	July 28, 2013	April 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Foundry	45%	66%	58%	62%	64%
Memory	38%	21%	29%	24%	23%
Logic and other	17%	13%	13%	14%	13%
	100%	100%	100%	100%	100%

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New orders for the third quarter of fiscal 2013 decreased and net sales slightly declined compared to the prior quarter, primarily due to lower demand and spending from foundry customers, partially offset by increased demand and spending from memory and logic customers. Approximately 45 percent of net sales in the third quarter of fiscal 2013 were for orders received and shipped within the quarter. Operating income and non-GAAP adjusted operating income decreased in the third quarter of fiscal 2013 compared to the prior quarter, primarily reflecting changes in product mix. In the third quarter of fiscal 2013, four customers accounted for approximately 56 percent of this segment's total new orders, while two customers accounted for 49 percent of net sales.

New orders for the third quarter of fiscal 2013 increased slightly compared to the same period in fiscal 2012 mainly due to increased demand from memory customers, partially offset by lower demand from foundry customers. Net sales during the current quarter decreased compared to the same period in fiscal 2012 due to lower sales across all customer categories. Both new orders and net sales for the first nine months of fiscal 2013 decreased compared to the prior year primarily due to lower demand and spending from foundry and memory customers. Operating income and non-GAAP adjusted operating income decreased in the third quarter and first nine months of fiscal 2013 compared to the same periods in the prior year, reflecting the decrease in net sales and changes in product mix.

The following regions accounted for at least 30 percent of total net sales for the Silicon Systems Group segment for one or more of the periods indicated:

	Three Months Ended						Change	
	July 28, 2013		April 28, 2013		July 29, 2012		Q3 2013 over Q2 2013	Q3 2013 over Q3 2012
	(In millions, except percentages)							
Taiwan	\$533	42%	\$716	55%	\$680	44%	(26)%	(22)%
Korea	\$190	15%	\$113	9%	\$294	19%	68%	(35)%
	Nine Months Ended						Change	
	July 28, 2013				July 29, 2012		YTD Q3 2013 over YTD Q3 2012	
	(In millions, except percentages)							
Taiwan	\$1,711	48%	\$1,428	31%			20%	
Korea	\$419	12%	\$1,496	32%			(72)%	

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Applied Global Services Segment

The Applied Global Services segment encompasses spares, upgrades, services, remanufactured earlier generation equipment (including 200mm systems) and factory automation software for semiconductor, display and solar manufacturing. These products are designed to improve customers' operating efficiency, optimize their operating costs, and lessen the environmental impact of their factories. Customer demand for products and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites. Industry conditions that affected Applied Global Services' sales of spares and services during the first nine months of fiscal 2013 were principally semiconductor manufacturers' wafer starts as well as utilization rates. Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change	
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012
	(In millions, except percentages and ratios)				
New orders	\$517	\$481	\$531	\$36	7% \$ (14) (3)%
Net sales	497	517	579	(20)	(4)% (82) (14)%
Book to bill ratio	1.0	0.9	0.9		
Operating income	114	118	122	(4)	(3)% (8) (7)%
Operating margin	22.9	% 22.8	% 21.1	%	0.1 point 1.8 points
Non-GAAP Adjusted Results					
Non-GAAP adjusted operating income	116	120	135	(4)	(3)% (19) (14)%
Non-GAAP adjusted operating margin percent	23.3	% 23.2	% 23.3	%	0.1 point —%

	Nine Months Ended		Change	
	July 28, 2013	July 29, 2012	YTD Q3 2013 over YTD Q3 2012	
	(In millions, except percentages and ratios)			
New orders	\$1,542	\$1,697	\$(155)	) (9)%
Net sales	1,485	1,664	(179)	) (11)%
Book to bill ratio	1.0	1.0		
Operating income	321	338	(17)	) (5)%
Operating margin	21.6	% 20.3	%	1.3 points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income	\$327	\$359	(32)	) (9)%
Non-GAAP adjusted operating margin percent	22.0	% 21.6	%	0.4 point

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.

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New orders for the third quarter of fiscal 2013 increased compared to the prior quarter primarily due to increased demand for spares and equipment upgrades. Net sales for the third quarter of fiscal 2013 decreased slightly from the prior quarter, which resulted in slightly lower operating income and non-GAAP adjusted operating income. New orders for the third quarter and first nine months of fiscal 2013 decreased compared to the same periods in fiscal 2012 mainly due to decreased demand for semiconductor spares and services. The decrease in new orders for the first nine months of fiscal 2013 was also attributable to an order for thin film solar equipment of \$95 million recorded during the first nine months of fiscal 2012. Net sales for the third quarter and first nine months of fiscal 2013 decreased compared to the same periods in the prior year due mainly to decreased spending in semiconductor spares and services. Operating income and non-GAAP adjusted operating income decreased in the third quarter and first nine months of fiscal 2013 compared to the same periods in the prior year, reflecting the decrease in net sales. Operating income for the first nine months of fiscal 2013 included restructuring and asset impairment charges of \$2 million associated with the 2012 EES Restructuring Plan and the integration of Varian. There was no single region that accounted for at least 30 percent of total net sales for the Applied Global Services segment for any of the periods presented.

Display Segment

The Display segment encompasses products for manufacturing LCDs, organic light-emitting diodes (OLEDs), and other display technologies for TVs, personal computers (PCs), tablets, smart phones, and other consumer-oriented devices. The segment is focused on expanding market share through technologically-differentiated equipment for manufacturing large-scale TVs; entry into new markets such as the low temperature polysilicon (LTPS), metal oxide, and touch panel sectors; and development of products that enable cost reductions through productivity and uniformity. Historically, display industry growth has depended primarily on consumer demand for increasingly larger and more advanced LCD TVs.

The market environment for Applied's Display segment in the first nine of fiscal 2013 was characterized by continued demand for touch screen and high-end mobile devices, as well as a recovery in the LCD TV equipment market. Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	July 28, 2013	April 28, 2013	July 29, 2012		Q3 2013 over Q2 2013	Q3 2013 over Q3 2012	
	(In millions, except percentages and ratios)						
New orders	\$256	\$195	\$67	\$61	31%	\$189	282%
Net sales	161	127	142	34	27%	19	13%
Book to bill ratio	1.6	1.5	0.5				
Operating income	33	19	10	14	74%	23	230%
Operating margin	20.5	% 15.0	% 7.0	%	5.5 points		13.5 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	\$34	\$21	\$12	13	62%	22	183%
Non-GAAP adjusted operating margin percent	21.1	% 16.5	% 8.5	%	4.6 points		12.6 points

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	Nine Months Ended		Change	
	July 28, 2013	July 29, 2012	YTD Q3 2013 over YTD Q3 2012	
	(In millions, except percentages and ratios)			
New orders	\$589	\$192	\$397	207%
Net sales	375	380	(5)	) (1)%
Book to bill ratio	1.6	0.5		
Operating income	55	23	32	139%
Operating margin	14.7	% 6.1	%	8.6 points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income	\$60	\$29	31	107%
Non-GAAP adjusted operating margin percent	16.0	% 7.6	%	8.4 points

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below. New orders and net sales for the third quarter of fiscal 2013 increased compared to the prior quarter primarily reflecting increased demand for LCD TV equipment. Operating income and non-GAAP adjusted operating income increased primarily due to higher level of net sales. One customer accounted for approximately 70 percent of new orders for the Display segment in the third quarter of fiscal 2013. Three customers accounted for 74 percent of net sales for this segment in the third quarter of fiscal 2013, with one of the customers accounting for 43 percent of net sales.

New orders for the third quarter and first nine months of fiscal 2013 increased compared to the same periods in the prior year primarily due to increased demand for LCD TV equipment as a result of improvement in end-market conditions. Net sales for the third quarter of fiscal 2013 increased compared to the same period in fiscal 2012 primarily due to increased investments in LCD TV equipment, while net sales for the first nine months of fiscal 2013 were essentially flat compared to the prior year. Operating income and non-GAAP adjusted operating income increased for the third quarter and first nine months of fiscal 2013 from the comparable periods in fiscal 2012, as a result of favorable changes in product mix and operating cost reductions.

The following regions accounted for at least 30 percent of total net sales for the Display segment for one or more of the periods indicated:

	Three Months Ended				Change			
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012			
	(In millions, except percentages)							
Korea	\$26	16%	\$59	46%	\$28	20%	(56)%	(7)%
China	\$113	70%	\$30	24%	\$58	41%	277%	95%
Taiwan	\$14	9%	\$9	7%	\$8	6%	56%	75%
Japan	\$8	5%	\$28	22%	\$46	32%	(71)%	(83)%
	Nine Months Ended				Change			
	July 28, 2013		July 29, 2012		YTD Q3 2013 over YTD Q3 2012			

(In millions, except percentages)

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Korea	\$128	34%	\$74	19%	73%
China	\$187	50%	\$78	21%	140%
Taiwan	\$24	6%	\$145	38%	(83)%
Japan	\$36	10%	\$71	19%	(49)%

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Energy and Environmental Solutions Segment

The Energy and Environmental Solutions segment includes products for fabricating c-Si solar PVs, as well as high throughput roll-to-roll deposition equipment for flexible electronics, packaging and other applications. This business is focused on delivering solutions to generate and conserve energy, with an emphasis on lowering the cost to produce solar power and increasing conversion efficiency. While end-demand for solar PVs has been robust over the last several years, investment levels in capital equipment remain depressed. Global solar PV production capacity exceeds anticipated demand, which has caused solar PV manufacturers to significantly reduce or delay investments in manufacturing capacity and new technology, or in some instances to cease operations.

The solar PV industry environment in the first nine months of fiscal 2013 was characterized by continued excess manufacturing capacity despite continued growth in end-market demand, uncertainty related to international trade disputes, and tightened access to capital. As a result, solar cell and wafering customers are deferring purchases of new equipment.

With the acquisition of Varian, Applied acquired ion implantation technology for semiconductor as well as c-Si solar cell manufacturing which was recorded under the Silicon Systems Group segment in fiscal 2012. In fiscal 2013, Applied began marketing the solar implant products commercially through its Energy and Environmental Solutions segment. Accordingly, effective in the first quarter of fiscal 2013, Applied accounts for its solar implant products under the Energy and Environmental Solutions segment. The effect of the solar implant products was not material to the operations of either the Silicon Systems Group or Energy and Environmental Solutions segments.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	July 28, 2013	April 28, 2013	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012		
(In millions, except percentages and ratios)							
New orders	\$19	\$39	\$35	\$(20)	(51)%	\$(16)	(46)%
Net sales	45	38	77	7	18%	(32)	(42)%
Book to bill ratio	0.4	1.0	0.5				
Operating loss	(27)	(322)	(102)	295	92%	75	74%
Operating margin	(60.0)%	(847.4)%	(132.5)%	787.4 points		72.5 points	
Non-GAAP Adjusted Results							
Non-GAAP							
adjusted operating loss	(15)	(34)	(64)	19	56%	49	77%
Non-GAAP							
adjusted operating margin percent	(33.3)%	(89.5)%	(83.1)%	56.2 points		49.8 points	

	Nine Months Ended		Change	
	July 28, 2013	July 29, 2012	YTD Q3 2013 over YTD Q3 2012	
(In millions, except percentages and ratios)				
New orders	\$126	\$131	\$(5)	(4)%
Net sales	129	363	(234)	(64)%
Book to bill ratio	1.0	0.4		
Operating loss	(403)	(188)	(215)	(114)%
Operating margin	(312.4)%	(51.8)%	(260.6) points	
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating loss	\$(93)	\$(138)	45	33%

Non-GAAP adjusted operating margin percent (72.1)% (38.0)% (34.1) points

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.

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New orders and net sales for the third quarter and first nine months of fiscal 2013 remained at low levels due to continued excess manufacturing capacity in the solar industry, which resulted in operating losses for the segment. One customer accounted for approximately 15 percent of new orders and net sales for this segment during the third quarter of fiscal 2013. Non-GAAP adjusted operating loss decreased for the third quarter of fiscal 2013 compared to the prior quarter and third quarter of fiscal 2012 due to spending reductions resulting from restructuring activities and continued cost reduction measures.

The following regions accounted for at least 30 percent of total net sales for the Energy and Environmental Solutions segment for one or more of the periods presented:

	Three Months Ended				Change			
	July 28, 2013	April 28, 2013	July 29, 2012	July 29, 2012	Q3 2013 over Q2 2013	Q3 2013 over Q3 2012		
	(In millions, except percentages)							
Taiwan	\$7	16%	\$3	8%	\$15	19%	133%	(53)%
China	\$30	67%	\$21	55%	\$45	58%	43%	(33)%
	Nine Months Ended				Change			
	July 28, 2013	July 29, 2012	July 29, 2012	July 29, 2012	YTD Q3 2013 over YTD Q3 2012	YTD Q3 2012		
	(In millions, except percentages)							
Taiwan	\$17	13%	\$114	31%	(85)%			
China	\$66	51%	\$171	47%	(61)%			

Operating income for the third quarter and first nine months of fiscal 2013 included restructuring and asset impairment charges of \$10 million and \$18 million, respectively, associated with the 2012 EES Restructuring Plan discussed above.

During the second quarter of fiscal 2013, Applied performed a two-step goodwill impairment test. Applied concluded that the Energy and Environmental Solutions reporting unit's carrying value exceeded its fair value and therefore recorded a \$224 million goodwill impairment charge. In addition, Applied performed an impairment test for long-lived assets associated with the reporting unit and determined that the majority of intangible assets were impaired. Accordingly, Applied recorded an impairment charge of \$54 million related to these intangible assets. See discussion in the Impairment of Goodwill and Intangible Assets section above and Note 8 of Notes to the Consolidated Condensed Financial Statements for further details.

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Financial Condition, Liquidity and Capital Resources

Applied's cash, cash equivalents and investments consist of the following:

	July 28, 2013	October 28, 2012
	(In millions)	
Cash and cash equivalents	\$1,745	\$1,392
Short-term investments	230	545
Long-term investments	1,055	1,055
Total cash, cash-equivalents and investments	\$3,030	\$2,992

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

	Nine Months Ended	
	July 28, 2013	July 29, 2012
	(In millions)	
Cash provided by operating activities	\$604	\$1,440
Cash provided by (used in) investing activities	\$158	\$(4,697)
Cash used in financing activities	\$(409)	\$(1,172)

Cash from operating activities for the nine months ended July 28, 2013 was \$604 million, which reflects net income adjusted for the effect of non-cash charges and changes in working capital components. Non-cash charges included depreciation, amortization, share-based compensation, impairment of goodwill and intangible assets, and restructuring and asset impairments. Cash from operations was negatively affected by increases in inventories and decreases in accounts payable and accrued expenses. The increases in inventories were mainly due to slightly higher deferred inventory at the end of the third quarter of fiscal 2013. The decreases in accounts payable and accrued expenses were mostly related to cash usage for existing restructuring plans and variable compensation programs.

Applied did not utilize programs to discount letters of credit issued by customers during the three and nine months ended July 28, 2013 and July 29, 2012. Discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements. There was no factoring of accounts receivable or discounting of promissory notes during the three and nine months ended July 28, 2013 and during the three months ended July 29, 2012. Applied factored accounts receivable and discounted promissory notes of \$70 million during the nine months ended July 29, 2012.

Applied's working capital was \$3.0 billion at July 28, 2013 and \$2.8 billion at October 28, 2012.

Days sales, inventory and payable outstanding at the end of each of the periods indicated are:

	July 28, 2013	April 28, 2013	July 29, 2012
Days sales outstanding	54	59	60
Days inventory outstanding	106	103	89
Days payable outstanding	40	41	29

Days sales outstanding varies due to the timing of shipments and the payment terms. Days sales outstanding decreased in the third quarter of fiscal 2013 compared to the prior quarter primarily due to better sales linearity and improved collection performance. Days inventory outstanding increased in the third quarter of fiscal 2013 compared to the prior quarter due to slightly higher deferred inventory at quarter end, while days payable outstanding remained relatively flat. Days inventory outstanding and days payable outstanding increased during the third quarter of fiscal 2013 compared to the same period in the prior year reflecting lower business volumes.

Applied generated \$158 million of cash from investing activities during the nine months ended July 28, 2013. Proceeds from sales and maturities of investments, net of purchases of investments, totaled \$299 million and capital expenditures, net were \$140 million during the nine months ended July 28, 2013. During the nine months ended July 29, 2012, Applied used \$4.7 billion in investing activities, primarily due to the acquisition of Varian.

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Applied used cash for financing activities in the amount of \$409 million during the nine months ended July 28, 2013, consisting primarily of \$336 million in payment of cash dividends to stockholders and \$198 million in repurchases of common stock, offset by proceeds from stock issuances related to equity compensation awards of \$125 million.

In June 2013, March 2013 and December 2012, Applied's Board of Directors declared a quarterly cash dividend in the amount of \$0.10, \$0.10 and \$0.09 per share, respectively. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied's stockholders.

Applied has credit facilities for unsecured borrowings in various currencies of up to \$1.6 billion, of which \$1.5 billion is comprised of a committed revolving credit agreement with a group of banks was extended by one year in May 2013 and is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at July 28, 2013. Remaining credit facilities in the amount of approximately \$80 million are with Japanese banks. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both July 28, 2013 and October 28, 2012 and Applied has not utilized these credit facilities.

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At July 28, 2013, Applied was in compliance with all such covenants. See Note 9 of Notes to Consolidated Condensed Financial Statements for additional discussion of long-term debt.

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of July 28, 2013, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately \$41 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 July 28, 2013, Applied Materials, Inc. has provided parent guarantees to banks for approximately \$102 million to cover these arrangements.

Applied's investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, municipal bonds, corporate bonds and mortgage-backed and asset-backed securities, as well as equity securities. Applied regularly monitors the credit risk in its investment portfolio and takes appropriate measures, which may include the sale of certain securities, to manage such risks prudently in accordance with its investment policies. During the three and nine months ended July 28, 2013, Applied did not recognize any impairment of its fixed income and publicly traded equity securities. At July 28, 2013, gross unrealized losses due to a decrease in the fair value of certain fixed income securities were not material.

During the nine months ended July 28, 2013, Applied recorded a favorable adjustment of \$5 million to the allowance for doubtful accounts. While Applied believes that its allowance for doubtful accounts at July 28, 2013 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

As of July 28, 2013, approximately \$1.3 billion of cash, cash equivalents, and marketable securities held by foreign subsidiaries may be subject to U.S. taxes if repatriated for U.S. operations. Of this amount, Applied intends to permanently reinvest approximately \$0.9 billion of these funds outside of the U.S. and does not plan to repatriate these funds. For the remaining cash, cash equivalents and marketable securities held by foreign subsidiaries, U.S. taxes have been provided for in the financial statements.

Although cash requirements will fluctuate based on the timing and extent of factors such as those discussed above, Applied's management believes that cash generated from operations, together with the liquidity provided by existing cash balances and borrowing capability, will be sufficient to satisfy Applied's liquidity requirements for the next

12 months. For further details regarding Applied's operating, investing and financing activities, see the Consolidated Condensed Statements of Cash Flows in this report.

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Critical Accounting Policies and Estimates

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

A critical accounting policy is defined as one that is both material to the presentation of Applied's consolidated financial statements and that requires management to make difficult, subjective or complex judgments that could have a material effect on Applied's financial condition or results of operations. Specifically, these policies have the following attributes: (1) Applied is required to make assumptions about matters that are highly uncertain at the time of the estimate; and (2) different estimates Applied could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on Applied's financial condition or results of operations. Estimates and assumptions about future events and their effects cannot be determined with certainty. Applied bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Applied's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties include those discussed in Part II, Item 1A, "Risk Factors." Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Applied's consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America, and provide a meaningful presentation of Applied's financial condition and results of operations.

Management believes that the following are critical accounting policies and estimates:

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

Warranty Costs

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

Allowance for Doubtful Accounts

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

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Inventory Valuation

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

Goodwill and Intangible Assets

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

Income Taxes

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

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

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

Non-GAAP Adjusted Results

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

accordance with GAAP.

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The following tables present a reconciliation of the GAAP and non-GAAP adjusted consolidated results:
APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

(In millions, except percentages)	Three Months Ended			Nine Months Ended		
	July 28, 2013	April 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012	
Non-GAAP Adjusted Gross Margin						
Reported gross margin (GAAP basis)	\$806	\$808	\$930	\$2,196	\$2,726	
Certain items associated with acquisitions ¹	40	43	44	126	209	
Acquisition integration and deal costs	1	1	—	3	—	
Non-GAAP adjusted gross margin	\$847	\$852	\$974	\$2,325	\$2,935	
Non-GAAP adjusted gross margin percent (% of net sales)	42.9	% 43.2	% 41.6	% 42.1	% 41.5	%
Non-GAAP Adjusted Operating Income						
Reported operating income (loss) (GAAP basis)	\$250	\$(68)	\$322	\$221	\$910	
Impairment of goodwill and intangible assets	—	278	—	278	—	
Certain items associated with acquisitions ¹	47	53	57	154	242	
Acquisition integration and deal costs	5	12	8	27	70	
Restructuring charges and asset impairments ^{2, 3, 4, 5}	14	10	44	33	44	
Gain on sale of facility	(4)	—	—	(4)	—	
Non-GAAP adjusted operating income	\$312	\$285	\$431	\$709	\$1,266	
Non-GAAP adjusted operating margin percent (% of net sales)	15.8	% 14.4	% 18.4	% 12.8	% 17.9	%
Non-GAAP Adjusted Net Income						
Reported net income (loss) (GAAP basis)	\$168	\$(129)	\$218	\$73	\$624	
Impairment of goodwill and intangible assets	—	278	—	278	—	
Certain items associated with acquisitions ¹	47	53	57	154	242	
Acquisition integration and deal costs	5	12	8	27	70	
Restructuring charges and asset impairments ^{2, 3, 4, 5}	14	10	44	33	44	
Impairment of strategic investments	3	2	—	5	3	
Gain on sale of facility	(4)	—	—	(4)	—	
Reinstatement of federal R&D tax credit	—	(3)	—	(13)	—	
Resolution of prior years' income tax filings	(3)	—	(10)	(14)	(17)	
Income tax effect of non-GAAP adjustments	(7)	(24)	(17)	(48)	(77)	
Non-GAAP adjusted net income	\$223	\$199	\$300	\$491	\$889	

¹ These items are incremental charges attributable to acquisitions, consisting of inventory fair value adjustments on products sold, and amortization of purchased intangible assets.

² Results for the three months ended July 28, 2013 included \$4 million of employee-related costs related to the restructuring program announced on October 3, 2012 and restructuring and asset impairment charges of \$10 million related to the restructuring program announced on May 10, 2012.

³ Results for the three months ended April 28, 2013 included \$4 million of employee-related costs related to the restructuring program announced on October 3, 2012 and restructuring and asset impairment charges of \$6 million related to the restructuring program announced on May 10, 2012.

4 Results for the three and nine months ended July 29, 2012 included \$35 million of restructuring and asset impairment charges related to the restructuring program announced on May 10, 2012 and severance charges of \$9 million related to the integration of Varian.

5 Results for the nine months ended July 28, 2013 included \$12 million of employee-related costs, net, related to the restructuring program announced on October 3, 2012, restructuring and asset impairment charges of \$19 million related to the restructuring program announced on May 10, 2012 and severance charges of \$2 million related to the integration of Varian.

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APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

(In millions, except per share amounts)	Three Months Ended			Nine Months Ended	
	July 28, 2013	April 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings (loss) per diluted share (GAAP basis)	\$0.14	\$(0.11)	\$0.17	\$0.06	\$0.48
Impairment of goodwill and intangible assets	—	0.22	—	0.22	—
Certain items associated with acquisitions	0.03	0.04	0.04	0.10	0.15
Acquisition integration and deal costs	—	0.01	0.01	0.02	0.04
Restructuring charges and asset impairments	0.01	—	0.03	0.02	0.03
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings	—	—	(0.01)	(0.02)	(0.01)
Non-GAAP adjusted earnings per diluted share	\$0.18	\$0.16	\$0.24	\$0.40	\$0.69
Weighted average number of diluted shares	1,220	1,217	1,268	1,218	1,292

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The following table presents a reconciliation of the GAAP and non-GAAP adjusted segment results:

APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

(In millions, except percentages)	Three Months Ended			Nine Months Ended		
	July 28, 2013	April 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012	
SSG Non-GAAP Adjusted Operating Income						
Reported operating income (GAAP basis)	\$246	\$283	\$427	\$663	\$1,202	
Certain items associated with acquisitions ¹	42	45	47	131	208	
Acquisition integration and deal costs, net	(5)	1	7	(3)	31	
Restructuring charges and asset impairments ^{4, 5}	—	—	1	1	1	
Non-GAAP adjusted operating income	\$283	\$329	\$482	\$792	\$1,442	
Non-GAAP adjusted operating margin percent (% of net sales)	22.2	% 25.5	% 31.2	% 22.4	% 30.9	%
AGS Non-GAAP Adjusted Operating Income						
Reported operating income (GAAP basis)	\$114	\$118	\$122	\$321	\$338	
Certain items associated with acquisitions ¹	2	1	2	4	10	
Restructuring charges and asset impairments ^{3, 4, 5}	—	1	11	2	11	
Non-GAAP adjusted operating income	\$116	\$120	\$135	\$327	\$359	
Non-GAAP adjusted operating margin percent (% of net sales)	23.3	% 23.2	% 23.3	% 22.0	% 21.6	%
Display Non-GAAP Adjusted Operating Income						
Reported operating income (GAAP basis)	\$33	\$19	\$10	\$55	\$23	
Certain items associated with acquisitions ¹	1	2	2	5	6	
Non-GAAP adjusted operating income	\$34	\$21	\$12	\$60	\$29	
Non-GAAP adjusted operating margin percent (% of net sales)	21.1	% 16.5	% 8.5	% 16.0	% 7.6	%
EES Non-GAAP Adjusted Operating Loss						
Reported operating loss (GAAP basis)	\$(27)	\$(322)	\$(102)	\$(403)	\$(188)	
Impairment of goodwill and intangible assets	—	278	—	278	—	
Certain items associated with acquisitions ¹	2	5	6	14	18	
Restructuring charges and asset impairments ^{2, 3, 4, 5}	10	5	32	18	32	
Non-GAAP adjusted operating loss	\$(15)	\$(34)	\$(64)	\$(93)	\$(138)	
Non-GAAP adjusted operating margin percent (% of net sales)	(33.3)	% (89.5)	% (83.1)	% (72.1)	% (38.0)	%

¹ These items are incremental charges attributable to acquisitions, consisting of inventory fair value adjustments on products sold, and amortization of purchased intangible assets.

² Results for the three months ended July 28, 2013 included restructuring and asset impairment charges of \$10 million related to the restructuring program announced on May 10, 2012.

³ Results for the three months ended April 28, 2013 included restructuring and asset impairment charges of \$6 million related to the restructuring program announced on May 10, 2012.

⁴ Results for the three and nine months ended July 29, 2012 included restructuring and asset impairment charges of \$35 million related to the restructuring program announced on May 10, 2012 and severance charges of \$9 million

related to the integration of Varian.

5 Results for the nine months ended July 28, 2013 included restructuring and asset impairment charges of \$19 million related to the restructuring program announced on May 10, 2012 and severance charges of \$2 million related to the integration of Varian.

Note: The reconciliation of GAAP and non-GAAP adjusted segment results above does not include certain operating expenses that are managed separately at the corporate level and certain expenses that are not absorbed by the segments, which are reported within corporate and unallocated costs and included in consolidated operating income.

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Item 3: Quantitative and Qualitative Disclosures About Market Risk

Applied is exposed to interest rate risk related to its investment portfolio and debt issuances. Applied's investment portfolio includes fixed-income securities with a fair value of approximately \$1.2 billion at July 28, 2013. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at July 28, 2013, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately \$20 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary. At July 28, 2013, the carrying amount of debt issued by Applied was \$1.9 billion with an estimated fair value of \$2.1 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied's debt issuances of approximately \$180 million at July 28, 2013.

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the third quarter of fiscal 2013, there were no changes in the internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act, that materially affected, or are reasonably likely to materially affect, Applied's internal control over financial reporting.

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth above under the caption “Legal Matters” in Note 14 contained in Notes to Consolidated Condensed Financial Statements is incorporated herein by reference.

Item 1A: Risk Factors

The risk factors set forth below include any material changes to, and supersede the description of, the risk factors disclosed in Part I, Item 1A of Applied’s 2012 Form 10-K. These factors could materially and adversely affect Applied’s business, financial condition or results of operations and cause reputational harm, and they should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

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

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

To meet rapidly changing demand in the industries it serves, Applied must accurately forecast demand and effectively manage its resources and production capacity for each of its segments as well as across multiple segments, and may incur unexpected or additional costs to align its business operations. During periods of increasing demand for its products, Applied must have sufficient manufacturing capacity and inventory to meet customer demand; effectively manage its supply chain; attract, retain and motivate a sufficient number of qualified employees; and continue to control costs. During periods of decreasing demand, Applied must reduce costs and align its cost structure with prevailing market conditions; effectively manage its supply chain; and motivate and retain key employees.

Applied is exposed to risks associated with the uncertain global economy.

Uncertain global economic conditions and low or negative growth in China, Europe, and the United States, along with difficulties in the financial markets, national debt and fiscal concerns in various regions, and government austerity measures, are posing challenges to the industries in which Applied operates. The markets for semiconductors and flat panel displays in particular depend largely on consumer spending, while the solar market depends in part on government incentives and the availability of financing for PV installations. Economic uncertainty and related factors exacerbate negative trends in business and consumer spending and may cause certain Applied customers to push out, cancel, or refrain from placing orders for equipment or services, which may in turn reduce Applied’s net sales, reduce backlog, and affect Applied’s ability to convert backlog to sales. Uncertain market conditions, difficulties in obtaining capital, or reduced profitability may also cause some customers to scale back operations, exit businesses, merge with other manufacturers, or file for bankruptcy protection and potentially cease operations, which can also result in lower sales and/or additional inventory or bad debt expense for Applied. These conditions may similarly affect key suppliers, which could impair their ability to deliver parts and result in delays for Applied’s products or added costs. In addition, these conditions may lead to strategic alliances by, or consolidation of, other equipment manufacturers, which could adversely affect Applied’s ability to compete effectively.

Uncertainty about future economic and industry conditions also makes it more challenging for Applied to forecast its operating results, make business decisions, and identify and prioritize the risks that may affect its businesses, sources and uses of cash, financial condition and results of operations. Applied may be required to implement additional cost reduction efforts, including restructuring activities, which may adversely affect Applied’s ability to capitalize on opportunities. In addition, Applied maintains an investment portfolio that is subject to general credit, liquidity, foreign exchange, market and interest rate risks. The risks to Applied’s investment portfolio may be exacerbated if financial

market conditions deteriorate and, as a result, the value and liquidity of the investment portfolio, as well as returns on pension assets, could be negatively impacted and lead to impairment charges. Applied also maintains cash balances in various bank accounts globally in order to fund normal operations. If any of these financial institutions becomes insolvent, it could limit Applied's ability to access cash in the affected accounts.

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Applied is exposed to risks as a result of ongoing changes in the various industries in which it operates. The global semiconductor, flat panel display, solar and related industries in which Applied operates are characterized by ongoing changes affecting some or all of these industries that impact demand for and/or the profitability of Applied's products, including:

- the nature, timing and degree of visibility of changes in end demand for electronic products, including those related to fluctuations in consumer buying patterns tied to seasonality or the introduction of new products, and the effects of these changes on foundry and other customers' businesses and, in turn, on demand for Applied's products;
- increasing capital requirements for building and operating new fabrication plants and customers' ability to raise the necessary capital;
- differences in growth rates among the semiconductor, display and solar industries;
- the increasing importance of establishing, improving and maintaining strong relationships with customers;
- the increasing cost and complexity for customers to move from product design to volume manufacturing, which may slow the adoption rate of new manufacturing technology;
- the need to continually reduce the total cost of manufacturing system ownership, due in part to greater demand for lower-cost consumer electronics compared to business information technology spending;
 - the heightened importance to customers of system reliability and productivity and the effect on demand for fabrication systems as a result of their increasing productivity, device yield and reliability;
- the increasing importance of, and difficulties in, developing products with sufficient differentiation to influence customers' purchasing decisions;
- requirements for shorter cycle times for the development, manufacture and installation of manufacturing equipment;
- price and performance trends for semiconductor devices, displays and solar PVs, and the corresponding effect on demand for such products;
- the increasing importance of the availability of spare parts to maximize the time that customers' systems are available for production;
- the increasing role for and complexity of software in Applied products; and
- the increasing focus on reducing energy usage and improving the environmental impact and sustainability associated with manufacturing operations.

Applied is exposed to risks as a result of ongoing changes specific to the semiconductor industry. The largest proportion of Applied's consolidated net sales and profitability has been and continues to be derived from sales of manufacturing equipment by the Silicon Systems Group to the global semiconductor industry. In addition, a majority of the revenues of Applied Global Services is from sales of service products to semiconductor manufacturers.

- The semiconductor industry is characterized by ongoing changes particular to this industry that impact demand for and/or the profitability of Applied's semiconductor equipment and service products, including:
- the increasing cost of research and development due to many factors, including: decreasing linewidths on a chip, the use of new materials, new and more complex device structures, more applications and process steps, increasing chip design costs, and the increasing cost and complexity of integrated manufacturing processes;
 - the need to reduce product development time, despite the increasing difficulty of technical challenges;
 - the growing number of types and varieties of semiconductors and number of applications across multiple substrate sizes;
 - the increasing cost and complexity for semiconductor manufacturers to move more technically advanced capability and smaller linewidths to volume manufacturing, and the resulting impact on the rates of technology transition and investment in capital equipment;
 - challenges in generating organic growth given semiconductor manufacturers' levels of capital expenditures and the allocation of capital investment to market segments that Applied does not serve, such as lithography, or segments where Applied's products have lower relative market share;
 - the importance of increasing market positions in under-penetrated segments, such as etch and inspection;

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the growing demand for mobility products, such as tablets and smartphones, and corresponding industry investment in devices that require fewer Applied products to manufacture, such as NAND flash memory, than are needed to make devices used in other applications, such as DRAM for personal computers;

the adoption of cloud-based memory storage particularly for mobility products, and the associated inhibiting effect on NAND bit growth rates;

the increasing frequency and complexity of technology transitions and inflections, such as 3-D transistors and advanced interconnects;

shorter cycle times between order placements by customers (particularly foundries) and product shipment, which may lead to inventory write-offs and manufacturing inefficiencies that decrease gross margin;

competitive factors that make it difficult to enhance market share, including challenges in securing development-tool-of-record (DTOR) and production-tool-of-record (PTOR) positions with customers;

shifts in sourcing strategies by computer and electronics companies that impact the equipment requirements of Applied's foundry customers;

the concentration of new wafer starts in Korea and Taiwan, where Applied's service penetration and service-revenue-per-wafer-start have been lower than in other regions; and

the increasing fragmentation of semiconductor markets, leading certain markets to become too small to support the cost of a new fabrication plant, while others require less technologically advanced products.

Applied must accurately forecast, and allocate appropriate resources and investment towards addressing, key technology changes and inflections, such as the transition to 20nm devices, in order to enable opportunities for market share gains. In addition, the industry transition from 300mm to 450mm wafers presents opportunities as well as risks and uncertainties, including those related to cost, technical complexity, timing, and the resulting effect on demand for manufacturing equipment and services. Several semiconductor customers have invested in another wafer fabrication equipment supplier to help fund development of 450mm and other new technologies, which may influence the timing of technology transitions, funding allocations or other matters.

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

The global flat panel display industry historically has experienced considerable volatility in capital equipment investment levels, due in part to the limited number of display manufacturers, the concentrated nature of end-use applications, excess production capacity relative to end-use demand, and panel manufacturer profitability. Industry growth has depended primarily on consumer demand for increasingly larger and more advanced TVs and, more recently, on demand for smartphones and other mobile devices, which demand is highly sensitive to cost and improvements in technologies and features. The display industry is characterized by ongoing changes particular to this industry that impact demand for and/or the profitability of Applied's display products, including:

the timing and extent of an expansion of manufacturing facilities in China by Chinese display manufacturers and manufacturers from other countries, and the ability of non-Chinese manufacturers to obtain government approvals on a timely basis;

the rate of transition to larger substrate sizes for TVs and the resulting effect on capital intensity in the industry and on Applied's product differentiation, gross margin and return on investment;

the importance of new types of display technologies, such as low temperature polysilicon (LTPS), organic light-emitting diode (OLED) and metal oxide, and new touch panel films, such as anti-reflective and anti-fingerprint; and

uncertainty with respect to future display technology end-use applications and growth drivers.

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

Investment levels in capital equipment for the global solar industry have experienced considerable volatility. In recent years, global solar PV production capacity has exceeded end-use demand, causing customers to significantly reduce or delay investments in manufacturing capacity and new technology, or to cease operations. The global solar market is characterized by ongoing changes specific to this industry that impact demand for and/or the profitability of Applied's solar products, including:

- the need to continually decrease the cost-per-watt of electricity produced by solar PV products to at or below grid parity in more global regions by, among other things, reducing operating costs and increasing throughputs for solar PV manufacturing, and improving the conversion efficiency of solar PVs;
- the variability and uncertainty of government energy policies and their effect in influencing the rate of growth of the solar PV market, including the availability and amount of incentives for solar power such as tax credits, feed-in tariffs, rebates, renewable portfolio standards that require electricity providers to sell a targeted amount of energy from renewable sources, and goals for solar installations on government facilities;
- the number of solar PV manufacturers and amount of global production capacity for solar PVs, primarily in China;
- the filing of regulatory unfair trade proceedings against solar PVs from China, where most of Applied's solar equipment sales are concentrated, which has resulted in the assessment of duties on solar cells and modules imported from China and led to other trade-related conflicts and outcomes;
- the varying levels of operating and industry experience among solar PV manufacturers and the resulting differences in the nature and extent of customer support services requested from Applied;
- challenges associated with marketing and selling manufacturing equipment and services to a diverse and diffuse customer base;
- the growth of market segments in which Applied does not participate, such as passivation and furnaces;
- the availability and condition of used solar equipment, which impacts demand for new equipment;
- complexities associated with government-affiliated entities as customers, for example in China;
- the financial condition of solar PV customers and their access to affordable financing and capital; and
- solar panel manufacturing overcapacity, which has led to weak industry operating performance and outlooks, deterioration of the solar equipment market, and a worsening of the financial condition of certain customers.

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

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

- identify and address technology inflections, market changes, new applications, customer requirements and end-use demand;

- develop new products (including disruptive technologies), improve and/or develop new applications for existing products, and adapt similar products for use by customers in different applications and/or markets with varying technical requirements;

- differentiate its products from those of competitors and any disruptive technologies, meet customers' performance specifications, appropriately price products, and achieve market acceptance;

- maintain operating flexibility to enable different responses to different markets, customers and applications;

- enhance its worldwide operations across all business segments to reduce cycle time, enable continuous quality improvement, reduce costs, and enhance design for manufacturability and serviceability;

- focus on product development and sales and marketing strategies that address customers' high value problems and foster strong customer relationships;

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- allocate resources, including people and R&D funding, among Applied's products and between the development of new products and the enhancement of existing products, as most appropriate and effective for future growth;
- reduce the cost and improve the productivity of capital invested in R&D activities;
- accurately forecast demand, work with suppliers and meet production schedules for its products;
- improve its manufacturing processes and achieve cost efficiencies across product offerings;
- adapt to changes in value offered by companies in different parts of the supply chain;
- qualify products for evaluation and, in turn, volume manufacturing with its customers; and
- implement changes in its design engineering methodology, including those that enable reduction of material costs and cycle time, greater commonality of platforms and types of parts used in different systems, greater effectiveness of product life cycle management, and reduced energy usage and environmental impact.

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

Applied's semiconductor customer base historically has been, and is becoming even more, highly concentrated as a result of economic and industry conditions. In the third quarter of fiscal 2013, two semiconductor manufacturers accounted for 49 percent of Silicon Systems Group net sales and two customers accounted for 44 percent of Applied's consolidated net sales. Applied's display customer base is also highly concentrated, while concentration within Applied's solar customer base varies depending on the product line but is increasing due to challenging industry conditions. Applied's customer base is also geographically-concentrated. In the third quarter of fiscal 2013, customers in Taiwan accounted for 42 percent of net sales for the Silicon Systems Group segment; customers in China and Korea accounted for 86 percent of the net sales for the Display segment; and customers in China accounted for 67 percent of net sales for the Energy and Environmental Solutions segment.

In addition, certain customers have experienced significant ownership or management changes, consolidated with other manufacturers, outsourced manufacturing activities, or engaged in collaboration or cooperation arrangements with other manufacturers. Customers have entered into strategic alliances or industry consortia that have increased the influence of key industry participants in technology decisions made by their partners. Also, certain customers are making an increasingly greater percentage of their respective industry's capital equipment investments. Further, claims or litigation involving key industry participants have resulted and may continue to result in changes in their sourcing strategies and other outcomes. In this environment, contracts or orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of Applied's business. The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. If customers do not place orders, or they substantially reduce, delay or cancel orders, Applied may not be able to replace the business. As Applied's products are configured to customer specifications, changing, rescheduling or canceling orders may result in significant, non-recoverable costs. Major customers may also seek, and on occasion receive, pricing, payment, intellectual property-related, or other commercial terms that are less favorable to Applied.

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

In the third quarter of fiscal 2013, approximately 82 percent of Applied's net sales were to customers in regions outside the United States. Moreover, China now represents the largest market for various electronic products, such as TVs, PCs, and smartphones. Certain of Applied's R&D and manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in Singapore, Taiwan, China, Korea, Israel, Germany and Italy. Applied is also expanding its business and operations in new countries. The global nature of Applied's business and operations, combined with the need to continually improve the Company's operating cost structure, presents challenges, including but not limited to those arising from:

- varying regional and geopolitical business conditions and demands;
- political and social attitudes, laws, rules, regulations and policies within countries that favor domestic companies over non-domestic companies, including customer- or government-supported efforts to promote the development and growth of local competitors;
- customer- or government-supported efforts to influence Applied to conduct more of its operations and sourcing in a particular country, such as Korea and China;
-

variations among, and changes in, local, regional, national or international laws and regulations (including intellectual property, labor, tax, and import/export laws), as well as the interpretation and application of such laws and regulations;

global trade issues, including those related to the interpretation and application of import and export licenses, as well as international trade disputes;

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- positions taken by governmental agencies regarding possible national commercial and/or security issues posed by international business operations;
- fluctuating raw material, commodity, energy and shipping costs or shipping delays;
- challenges associated with managing more geographically diverse operations and projects, which require an effective organizational structure and appropriate business processes, procedures and controls;
- a more diverse workforce with different experience levels, cultures, customs, business practices and worker expectations;
- variations in the ability to develop relationships with local customers, suppliers and governments;
- fluctuations in interest rates and currency exchange rates, including the relative strength or weakness of the U.S. dollar against the Japanese yen, euro, Taiwanese dollar, Israeli shekel or Chinese yuan;
- the need to provide sufficient levels of technical support in different locations around the world;
- political instability, natural disasters (such as earthquakes, floods or storms), pandemics, social unrest, terrorism or acts of war in locations where Applied has operations, suppliers or sales, or that may influence the value chain of the industries that Applied serves;
- the need for an effective business continuity plan if a disaster or other event occurs that could disrupt business operations;
- the need to regularly reassess the size, capability and location of global infrastructure and make appropriate changes;
- cultural and language differences;
- difficulties and uncertainties associated with the entry into new countries;
- hiring and integration of an increasing number of new workers, including in countries such as India and China;
- the increasing need for the workforce to be more mobile and work in or travel to different regions;
- uncertainties with respect to economic growth rates in various countries; and
- uncertainties with respect to growth rates for the manufacture and sale of semiconductors, displays and solar PVs in the developing economies of certain countries.

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

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

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

- the need to devote additional resources to develop new products for, and operate in, new markets;
- the need to develop new sales and technical marketing strategies, cultivate relationships with new customers and meet different customer service requirements;
- differing rates of profitability and growth among multiple businesses;
- Applied's ability to anticipate demand, capitalize on opportunities, and avoid or minimize risks;
- the complexity of managing multiple businesses with variations in production planning, execution, supply chain management and logistics;
- the adoption of new business models, business processes and systems;
- Applied's ability to rapidly expand or reduce its operations to meet increased or decreased demand, respectively, and the associated effect on working capital;
- new materials, processes and technologies;
- the need to attract, motivate and retain employees with skills and expertise in these new areas;

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new and more diverse customers and suppliers, including some with limited operating histories, uncertain and/or limited funding, evolving business models and/or locations in regions where Applied does not have, or has limited, operations;

new or different competitors with potentially more financial or other resources, industry experience and/or established customer relationships;

entry into new industries and countries, with differing levels of government involvement, laws and regulations, and business, employment and safety practices;

third parties' intellectual property rights; and

the need to comply with, or work to establish, industry standards and practices.

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

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

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

the failure or inability of suppliers to timely deliver sufficient quantities of quality parts on a cost-effective basis;

volatility in the availability and cost of materials, including rare earth elements;

difficulties or delays in obtaining required import or export approvals;

information technology or infrastructure failures; and

natural disasters or other events beyond Applied's control (such as earthquakes, floods or storms, regional economic downturns, pandemics, social unrest, political instability, terrorism, or acts of war), particularly where it conducts manufacturing.

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

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

Applied's success, competitiveness and ability to execute on its global strategies and maintain a culture of innovation depend in large part on its ability to attract, retain and motivate key employees, especially in critical positions.

Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, management changes, Applied's organizational structure, hiring practices of competitors and other companies, cost reduction activities (including workforce reductions and unpaid shutdowns), availability of career development opportunities, the ability to obtain necessary authorizations for workers to provide services outside their home countries, and the effectiveness of Applied's compensation and benefit programs, including its share-based programs. Restructuring programs present particular challenges to the extent they involve the departure of knowledgeable and experienced employees and the resulting need to identify and train existing or new workers to perform necessary functions, which may result in unexpected costs, reduced productivity, and/or difficulties with respect to internal processes and controls.

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

Applied has made, and in the future intends to make, acquisitions of or investments in companies, technologies or products in existing, related or new markets for Applied. Acquisitions involve numerous risks that vary depending on the scale and nature of the acquisition, including but not limited to:

- diversion of management's attention from other operational matters;

- inability to complete acquisitions as anticipated or at all;

- the failure of acquired businesses to meet or exceed expected returns;

- requirements imposed by government regulators in connection with their review of a transaction, which may include, among other things, divestitures and/or restrictions on the conduct of Applied's existing business or the acquired business;

- ineffective integration of operations, systems, technologies, products or employees of an acquired business, which can impact the ability to realize anticipated synergies or other benefits;

- failure to commercialize purchased technologies;

- initial dependence on unfamiliar supply chains or relatively small supply partners;

- inability to capitalize on characteristics of new markets that may be significantly different from Applied's existing markets and where competitors may have stronger market positions and customer relationships;

- failure to attract, retain and motivate key employees from the acquired business;

- reductions in cash balances and/or increases in debt obligations to finance the acquisition, which reduce the availability of cash flow for general corporate or other purposes;

- exposure to new operational risks, rules, regulations, worker expectations, customs and practices to the extent acquired businesses are located in regions where Applied has not historically conducted business;

- challenges associated with managing new, more diverse and more widespread operations, projects and people;

- inability to obtain and protect intellectual property rights in key technologies;

- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, and/or environmental, health and safety, anti-corruption, human resource, or other policies or practices;

- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements or worse-than-expected performance of the segment;

- the risk of litigation or claims associated with a proposed or completed transaction;

- unknown, underestimated and/or undisclosed commitments or liabilities; and

- the inappropriate scale of acquired entities' critical resources or facilities for business needs.

Applied also makes strategic investments in other companies, including companies formed as joint ventures, which may decline in value and/or not meet desired objectives. The success of these investments depends on various factors over which Applied may have limited or no control and, particularly with respect to joint ventures, requires ongoing and effective cooperation with strategic partners. The risks to Applied's strategic investment portfolio may be exacerbated by unfavorable financial market and macroeconomic conditions and, as a result, the value of the investment portfolio could be negatively impacted and lead to impairment charges.

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Applied is exposed to various risks related to protection and enforcement of intellectual property rights and cybersecurity threats.

Applied's success depends in significant part on the protection of its intellectual property and other rights. Infringement of Applied's rights by a third party, such as the unauthorized manufacture or sale of equipment or spare parts, could result in uncompensated lost market and revenue opportunities for Applied. Policing any unauthorized use of intellectual property is difficult and costly and Applied cannot be certain that the measures it has implemented will prevent misuse. Applied's intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, or if Applied does not adequately protect or assert these rights or obtain necessary licenses on commercially reasonable terms. Furthermore, the laws and practices of other countries, including China, India, Taiwan and Korea, permit the protection and enforcement of Applied's rights to varying extents, which may not be sufficient to adequately protect Applied's rights. In addition, changes in intellectual property laws or their interpretation, such as recent changes in U.S. patent laws, may impact Applied's ability to protect and assert its intellectual property rights, increase costs and uncertainties in the prosecution of patent applications and enforcement or defense of issued patents, and diminish the value of Applied's intellectual property.

Applied has experienced and expects to continue to be subject to global cybersecurity threats and incidents, ranging from employee error or misuse to individual attempts to gain unauthorized access to information systems to sophisticated and targeted measures known as advanced persistent threats. These could result in business disruption; misappropriation, corruption or loss of confidential information (Applied's and/or that of third parties) and critical data; reputational damage; litigation with third parties; diminution in the value of Applied's investment in research, development and engineering; data privacy issues; and increased cybersecurity protection and remediation costs.

Applied is exposed to various risks related to legal proceedings.

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

Legal proceedings and claims, whether with or without merit, and associated internal investigations, may (1) be time-consuming and expensive to prosecute, defend or conduct; (2) divert management's attention and other Applied resources; (3) inhibit Applied's ability to sell its products; (4) result in adverse judgments for damages, injunctive relief, penalties and fines; and/or (5) negatively affect Applied's business. There can be no assurance regarding the outcome of current or future legal proceedings, claims or investigations.

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

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

satisfactory quality levels, Applied's ability to meet customer requirements could suffer, particularly during a market upturn.

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In addition, Applied must regularly implement or update comprehensive programs and processes to better align its global organizations, including initiatives to enhance the Asia supply chain and improve back office and information technology infrastructure for more efficient transaction processing. Applied also is implementing a multi-year, company-wide program to transform certain business processes or extend established processes, including the transition to a single enterprise resource planning (ERP) software system to perform various functions. The implementation of additional functionality to the ERP system entails certain risks, including difficulties with changes in business processes that could disrupt Applied's operations, such as its ability to track orders and timely ship products, project inventory requirements, manage its supply chain and aggregate financial and operational data. During transitions Applied must continue to rely on legacy information systems, which may be costly or inefficient, while the implementation of new initiatives may not achieve the anticipated benefits and may divert management's attention from other operational activities, negatively affect employee morale, or have other unintended consequences. If Applied does not effectively develop and implement its outsourcing and relocation strategies, if required export and other governmental approvals are not timely obtained, if Applied's third party providers do not perform as anticipated, or if there are delays or difficulties in enhancing business processes, Applied may not realize anticipated productivity improvements or cost efficiencies, and may experience operational difficulties, increased costs (including energy and transportation), manufacturing interruptions or delays, inefficiencies in the structure and/or operation of its supply chain, loss of its intellectual property rights, quality issues, reputational harm, increased product time-to-market, and/or inefficient allocation of human resources.

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

Applied has a significant amount of goodwill and other acquired intangible assets related to acquisitions. Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year, and more frequently when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The review compares the fair value for each of Applied's reporting units to its associated carrying value, including goodwill. Factors that could lead to impairment of goodwill and intangible assets include adverse industry or economic trends, reduced estimates of future cash flows, declines in the market price of Applied common stock, changes in Applied's strategies or product portfolio, and restructuring activities. Applied's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. For example, in the second quarter of fiscal 2013, Applied recorded goodwill and intangible asset impairment charges. Applied may be required to record future charges to earnings during the period in which an impairment of goodwill or intangible assets is determined to exist.

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

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

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

In addition, Applied is subject to regular examination by the Internal Revenue Service and other tax authorities, and from time to time initiates amendments to previously filed tax returns. Applied regularly assesses the likelihood of favorable or unfavorable outcomes resulting from these examinations and amendments to determine the adequacy of its provision for income taxes, which requires estimates and judgments. Although Applied believes its tax estimates are reasonable, there can be no assurance that the tax authorities will agree with such estimates. Applied may have to

engage in litigation to achieve the results reflected in the estimates, which may be time-consuming and expensive. There can be no assurance that Applied will be successful or that any final determination will not be materially different from the treatment reflected in Applied's historical income tax provisions and accruals.

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

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

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

Applied is subject to various risks related to: (1) new, different, inconsistent or even conflicting laws, rules and regulations that may be enacted by executive order, legislative bodies and/or regulatory agencies in the countries in which Applied operates; (2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules and regulations. For example, as a public company with global operations, Applied is subject to the laws of multiple jurisdictions and the rules and regulations of various governing bodies, including those related to financial and other disclosures, corporate governance, privacy, and anti-corruption. Changes in laws, regulations and standards may create uncertainty regarding compliance matters. Efforts to comply with new and changing regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

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

The following table provides information as of July 28, 2013 with respect to the shares of common stock repurchased by Applied during the third quarter of fiscal 2013.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Aggregate Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Program*	Maximum Dollar Value of Shares That May Yet be Purchased Under the Program*
(In millions, except per share amounts)					
Month #1 (April 29, 2013 to May 26, 2013)	0.8	\$ 14.72	\$ 12	0.8	\$ 1,670
Month #2 (May 27, 2013 to June 23, 2013)	1.3	\$ 15.37	20	1.3	\$ 1,650
Month #3 (June 24, 2013 to July 28, 2013)	1.2	\$ 15.69	18	1.2	\$ 1,632
Total	3.3	\$ 15.33	\$ 50	3.3	

* On March 5, 2012, the Board of Directors approved a stock repurchase program authorizing up to \$3.0 billion in repurchases over the next three years, ending March 2015.

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Item 6. Exhibits

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

Exhibit No.	Description	Incorporated by Reference			Filing Date
		Form	File No.	Exhibit No.	
10.1	Extension Agreement, dated as of May 25, 2013, to Credit Agreement, dated as of May 25, 2011, as amended, among Applied Materials, Inc., JPMorgan Chase Bank, N.A. as administrative agent and the lenders parties thereto	8-K	000-06920	10.1	5/28/2013
10.2	Offer Letter, dated August 14, 2013, between Applied Materials, Inc. and Gary E. Dickerson†				
10.3	Offer Letter, dated August 15, 2013, between Applied Materials, Inc. and Michael R. Splinter†				
10.4	Form of Non-Qualified Stock Option Agreement for Employees for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended†				
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
101.INS	XBRL Instance Document‡				
101.SCH	XBRL Taxonomy Extension Schema Document‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document‡				

†Filed herewith.

‡Furnished herewith.

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SIGNATURES

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

APPLIED MATERIALS, INC.

By: /s/ ROBERT J. HALLIDAY
Robert J. Halliday
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

August 22, 2013