

APPLIED MATERIALS INC /DE  
Form 10-Q  
February 27, 2012  
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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 January 29, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-06920

**Applied Materials, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of*

*incorporation or organization)*

**3050 Bowers Avenue,  
P.O. Box 58039**

**Santa Clara, California**

*(Address of principal executive offices)*

**94-1655526**

*(I.R.S. Employer*

*Identification No.)*

**95052-8039**  
*(Zip Code)*

**(Registrant's telephone number, including area code)**

**(408) 727-5555**

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

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

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

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

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

Number of shares outstanding of the issuer's common stock as of January 29, 2012: 1,291,121,831

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**APPLIED MATERIALS, INC.**

**FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JANUARY 29, 2012**

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

**Table of Contents****APPLIED MATERIALS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

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

See accompanying Notes to Consolidated Condensed Financial Statements.

**Table of Contents****APPLIED MATERIALS, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS\***

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

**Table of Contents****APPLIED MATERIALS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS EQUITY****(UNAUDITED)****(In millions)**

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

See accompanying Notes to Consolidated Condensed Financial Statements.



**Table of Contents****APPLIED MATERIALS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

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

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|  |               |          |          |
|--|---------------|----------|----------|
| Cash and cash equivalents                  | end of period | \$ 1,681 | \$ 1,974 |
| <b>Supplemental cash flow information:</b> |               |          |          |
| Cash payments for income taxes             |               | \$ 33    | \$ 165   |
| Cash refunds from income taxes             |               | \$ 3     | \$ 1     |
| Cash payments for interest                 |               | \$ 41    | \$       |

See accompanying Notes to Consolidated Condensed Financial Statements.

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**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 Basis of Presentation**

***Basis of Presentation***

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 30, 2011 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Annual Report on Form 10-K for the fiscal year ended October 30, 2011 (2011 Form 10-K). Applied's results of operations for the three months ended January 29, 2012 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2012 and 2011 each contains 52 weeks, and the first quarter of fiscal 2012 and 2011 each contained 13 weeks.

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

***Use of Estimates***

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

***Revenue Recognition***

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

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**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

believes that at the time of delivery, it has an enforceable claim to amounts recognized as revenue. The completed contract method is used for SunFab™ thin film lines. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

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

***Recent Accounting Pronouncements***

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

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

**Table of Contents****APPLIED MATERIALS, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Note 2 Earnings Per Share**

Basic earnings per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, restricted stock units, and employee stock purchase plans shares) outstanding during the period. Applied's net income has not been adjusted for any period presented for purposes of computing basic or diluted earnings per share due to the Company's non-complex capital structure. For purposes of computing diluted earnings per share, weighted average potential common shares do not include stock options with an exercise price greater than the average fair market value of Applied common stock for the period as the effect would be anti-dilutive.

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

**Table of Contents****APPLIED MATERIALS, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Note 3 Cash, Cash Equivalents and Investments***Summary of Cash, Cash Equivalents and Investments*

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

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

**Table of Contents****APPLIED MATERIALS, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

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

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

***Maturities of Investments***

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

|                         | Cost          | Estimated<br>Fair<br>Value |
|-------------------------|---------------|----------------------------|
|                         | (In millions) |                            |
| Due in one year or less | \$ 285        |                            |