APPLIED MATERIALS INC /DE
Form 10-Q
September 01, 2009

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended July 26, 2009**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission File Number 000-06920
Applied Materials, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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 o No þ

Number of shares outstanding of the issuer s common stock as of July 26, 2009: 1,333,714,002

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

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

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS*

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

Additional paid-in capital	5,198,613	5,095,894
Retained earnings	10,896,826	11,601,288
Treasury stock	(9,100,915)	(9,134,962)
Accumulated other comprehensive income (loss)	5,748	(26,570)
Total stockholders equity	7,013,609	7,548,958
Total liabilities and stockholders equity	$ 9,580,281	$ 11,006,318

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended July 26, 2009	Nine Months Ended July 27, 2008
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (443,189)	$ 729,651
Adjustments required to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	219,609	240,039
Loss on fixed asset retirements	16,165	27,880
Provision for bad debts	62,539	
Restructuring and asset impairments	159,481	49,634
Deferred income taxes	96,117	(60,886)
Excess tax benefits from equity-based compensation plans		(5,406)
Net recognized loss (gain) on investments	13,083	(1,244)
Pretax loss of equity-method investment	34,983	25,660
Impairment of equity-method investment and strategic investments	79,422	
Equity-based compensation	116,114	135,165
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	786,319	534,104
Inventories	238,510	(504,555)
Other current assets	49,990	77,593
Other assets	(7,134)	(4,383)
Accounts payable and accrued expenses	(632,193)	(127,423)
Customer deposits and deferred revenue	(314,250)	530,347
Income taxes	(419,297)	(66,603)
Other liabilities	36,527	4,578
Cash provided by operating activities	92,796	1,584,151
Cash flows from investing activities:		
Capital expenditures	(187,804)	(209,512)
Cash paid for acquisition, net of cash acquired		(235,324)
Proceeds from sales and maturities of investments	1,121,026	4,514,648
Purchases of investments	(649,417)	(4,608,845)
Cash provided by (used in) investing activities	283,805	(539,033)
Cash flows from financing activities:		
Debt repayments	(241)	(1,854)
Proceeds from common stock issuances	29,406	334,575

Common stock repurchases	(22,906)	(1,199,984)
Excess tax benefits from equity-based compensation plans		5,406
Payment of dividends to stockholders	(239,756)	(245,559)
Cash used in financing activities	(233,497)	(1,107,416)
Effect of exchange rate changes on cash and cash equivalents	742	108
Increase (decrease) in cash and cash equivalents	143,846	(62,190)
Cash and cash equivalents beginning of period	1,411,624	1,202,722
Cash and cash equivalents end of period	$ 1,555,470	$ 1,140,532
Supplemental cash flow information:		
Cash payments for income taxes	$ 139,625	$ 349,914
Cash payments for interest	$ 7,212	$ 7,243

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation and Equity-Based Compensation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 26, 2008 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied s Annual Report on Form 10-K for the fiscal year ended October 26, 2008 (2008 Form 10-K). Applied s results of operations for the three and nine months ended July 26, 2009 are not necessarily indicative of future operating results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (United States) requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

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

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

Equity-Based Compensation

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

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

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Stock Options

The exercise price of each stock option equals the fair market value of Applied common stock on the date of grant. Most options are scheduled to vest over three to four years and expire no later than seven years from the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Applied s stock options have characteristics significantly different from those of publicly traded options. The weighted average assumptions used in the model are outlined in the following table:

	Three Months Ended		Nine Months Ended	
	July 26, 2009	**July 27, 2008**	**July 26, 2009**	**July 27, 2008**
Stock Options:				
Dividend yield	2.25%	1.24%	2.80%	1.24%
Expected volatility	46%	32%	50%	32%
Risk-free interest rate	1.3%	2.9%	1.3%	3.0%
Expected life (in years)	3.0	3.9	3.0	3.9

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

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

Employee Stock Purchase Plans

Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning of the applicable offering period or at the end of each applicable purchase period. Effective March 2, 2009, the length of offering periods under the ESPP was reduced to 6 months, from a maximum of 24 months in duration. The incremental compensation cost associated with this modification was insignificant. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was $2.99 and $4.88 for the nine months ended July 26, 2009 and July 27, 2008, respectively. No shares were issued under the ESPP during the three months ended July 26, 2009 and July 27, 2008, respectively. The number of shares issued during the nine months ended July 26, 2009 and July 27, 2008 was 3,536,000 and 2,294,000, respectively. Compensation expense is calculated using the fair value of the employees purchase rights under the Black-Scholes model. Underlying assumptions used in the model are outlined in the following table:

	Nine Months Ended	
	July 26, 2009	July 27, 2008
ESPP:	&nb	