

LAM RESEARCH CORP  
Form 10-Q  
April 30, 2015  
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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 March 29, 2015**

**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 0-12933**

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

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**94-2634797**  
**(I.R.S. Employer**  
**Identification No.)**

**4650 Cushing Parkway**  
**Fremont, California**  
**(Address of principal executive offices)**  
**(510) 572-0200**

**94538**  
**(Zip Code)**

**(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 ☐

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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 ☒

As of April 27, 2015, the Registrant had 158,325,352 shares of common stock outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****LAM RESEARCH CORPORATION****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	<b>March 29, 2015 (unaudited)</b>	<b>June 29, 2014 (1)</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,635,636	\$ 1,452,677
Short-term investments	2,313,495	1,612,967
Accounts receivable, less allowance for doubtful accounts of \$4,943 as of March 29, 2015 and \$4,962 as of June 29, 2014	1,046,800	800,616
Inventories	919,679	740,503
Prepaid expenses and other current assets	145,357	176,899
Total current assets	6,060,967	4,783,662
Property and equipment, net	579,824	543,496
Restricted cash and investments	164,300	146,492
Goodwill	1,466,319	1,466,225
Intangible assets, net	776,658	894,078
Other assets	190,473	159,353
Total assets	\$ 9,238,541	\$ 7,993,306

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Trade accounts payable	\$ 322,160	\$ 223,515
Accrued expenses and other current liabilities	588,866	604,296
Deferred profit	303,284	235,923
Current portion of long-term debt, convertible notes, and capital leases	520,686	518,267
Total current liabilities	1,734,996	1,582,001
Long-term debt, convertible notes, and capital leases	1,831,094	817,202
Income taxes payable	205,536	258,357
Other long-term liabilities	189,291	122,662
Total liabilities	3,960,917	2,780,222

Commitments and contingencies

Senior convertible notes	180,569	183,349
Stockholders' equity:		
Preferred stock, at par value of \$0.001 per share; authorized - 5,000 shares; none outstanding		
Common stock, at par value of \$0.001 per share; authorized - 400,000 shares; issued and outstanding - 158,485 shares as of March 29, 2015 and 162,350 shares as of June 29, 2014	158	162
Additional paid-in capital	5,380,309	5,239,567
Treasury stock, at cost; 98,849 shares as of March 29, 2015 and 92,867 shares as of June 29, 2014	(4,233,394)	(3,757,076)
Accumulated other comprehensive loss	(63,240)	(28,655)
Retained earnings	4,013,222	3,575,737
Total stockholders' equity	5,097,055	5,029,735
Total liabilities and stockholders' equity	\$ 9,238,541	\$ 7,993,306

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements

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**LAM RESEARCH CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 29, 2015</b>	<b>March 30, 2014</b>	<b>March 29, 2015</b>	<b>March 30, 2014</b>
Revenue	\$ 1,393,333	\$ 1,227,392	\$ 3,777,942	\$ 3,358,512
Cost of goods sold	792,731	696,594	2,135,144	1,908,067
Gross margin	600,602	530,798	1,642,798	1,450,445
Research and development	217,865	185,978	603,567	531,022
Selling, general and administrative	142,772	152,883	442,227	457,604
Total operating expenses	360,637	338,861	1,045,794	988,626
Operating income	239,965	191,937	597,004	461,819
Other expense, net	(11,389)	(9,855)	(26,836)	(27,954)
Income before income taxes	228,576	182,082	570,168	433,865
Income tax expense	22,291	17,686	45,862	34,971
Net income	\$ 206,285	\$ 164,396	\$ 524,306	\$ 398,894
Net income per share:				
Basic	\$ 1.30	\$ 1.01	\$ 3.28	\$ 2.46
Diluted	\$ 1.16	\$ 0.96	\$ 2.96	\$ 2.33
Number of shares used in per share calculations:				
Basic	158,992	162,238	159,975	161,904
Diluted	177,531	171,636	177,231	171,051
Cash dividend declared per common share	\$ 0.18	\$	\$ 0.54	\$

See Notes to Condensed Consolidated Financial Statements

Table of Contents**LAM RESEARCH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 29, 2015</b>	<b>March 30, 2014</b>	<b>March 29, 2015</b>	<b>March 30, 2014</b>
Net income	\$ 206,285	\$ 164,396	\$ 524,306	\$ 398,894
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(12,734)	(8,160)	(30,536)	1,680
Cash flow hedges:				
Net unrealized gains (losses) during the period	(7,417)	(205)	485	8,632
Net losses reclassified into earnings	(1,218)	(3,248)	(3,942)	(10,066)
	(8,635)	(3,453)	(3,457)	(1,434)
Available-for-sale investments:				
Net unrealized (losses) gains during the period	4,186	(111)	(554)	962
Net gains (losses) reclassified into earnings	(799)	25	(307)	(120)
	3,387	(86)	(861)	842
Defined benefit plan, net change in unrealized component	133	149	269	534
Other comprehensive (loss) income, net of tax	(17,849)	(11,550)	(34,585)	1,622
Comprehensive income	\$ 188,436	\$ 152,846	\$ 489,721	\$ 400,516

See Notes to Condensed Consolidated Financial Statements



**Table of Contents****LAM RESEARCH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Nine Months Ended</b>	
	<b>March 29, 2015</b>	<b>March 30, 2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 524,306	\$ 398,894
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	207,743	221,139
Deferred income taxes	8,245	11,641
Impairment of long-lived asset		11,632
Equity-based compensation expense	95,620	70,615
Income tax benefit on equity-based compensation plans	13,440	
Excess tax benefit on equity-based compensation plans	(13,207)	
Gain on sale of business	(7,431)	
Amortization of convertible note discount	25,867	24,652
Other, net	9,035	4,428
Changes in operating assets and liabilities	(370,181)	(271,843)
Net cash provided by operating activities	493,437	471,158
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(135,132)	(103,739)
Cash paid for business acquisition	(1,137)	(18,388)
Purchases of available-for-sale securities	(2,156,852)	(823,932)
Sales and maturities of available-for-sale securities	1,485,491	695,001
Purchases of other investments	(2,500)	
Repayment of notes receivable	3,978	10,000
Proceeds from sale of assets		21,635
Proceeds from sale of business	41,212	
(Uses of) transfer to restricted cash and investments	(700)	28,722
Net cash used for investing activities	(765,640)	(190,701)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt and capital lease obligations	(900)	(919)
Proceeds from issuance of long-term debt, net issuance costs	991,880	
Excess tax benefit (expense) on equity-based compensation plans	13,207	(296)
Treasury stock purchases	(498,901)	(204,610)
Dividends paid	(87,345)	

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Reissuances of treasury stock related to employee stock purchase plan	31,853	28,329
Proceeds from issuance of common stock	16,235	26,134
Net cash provided by (used for) financing activities	466,029	(151,362)
Effect of exchange rate changes on cash	(10,867)	733
Net increase in cash and cash equivalents	182,959	129,828
Cash and cash equivalents at beginning of period	1,452,677	1,162,473
Cash and cash equivalents at end of period	\$ 1,635,636	\$ 1,292,301

See Notes to Condensed Consolidated Financial Statements

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**LAM RESEARCH CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 29, 2015**

**(Unaudited)**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of Lam Research Corporation ( Lam Research or the Company ) for the fiscal year ended June 29, 2014, which are included in the Company s Annual Report on Form 10-K as of and for the year ended June 29, 2014 (the 2014 Form 10-K ). The Company s Forms 10-K, Forms 10-Q and Forms 8-K are available online at the Securities and Exchange Commission website on the Internet. The address of that site is [www.sec.gov](http://www.sec.gov). The Company also posts its Forms 10-K, Forms 10-Q and Forms 8-K on its corporate website at <http://investor.lamresearch.com>.

The consolidated financial statements include the accounts of Lam Research and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company s reporting period is a 52/53-week fiscal year. The Company s current fiscal year will end June 28, 2015 and includes 52 weeks. The quarters ended March 29, 2015 (the March 2015 quarter ) and March 30, 2014 (the March 2014 quarter ) included 13 weeks.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

In July 2013, the FASB released Accounting Standards Update 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new standard requires that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss carryforward or other tax credit carryforward when settlement in this manner is available under the tax law. The Company adopted this standard during the fiscal year without significant impact on its financial position, results of operations, or cash flows.

In April 2014, the FASB released Accounting Standards Update 2014-8 Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity. The new standard re-defines discontinued operations and requires only those disposals of components of an entity, including classifications as held for sale, that represent a strategic shift that has, or will have, a major effect on an entity s operations and financial results to be reported as discontinued operations. In addition, the new standard expands the disclosure requirements of discontinued operations. The Company adopted this standard during the fiscal year without significant impact on its financial position, results of operations, or cash flows.

In May 2014, the FASB released Accounting Standards Update 2014-9 Revenue from Contracts with Customers to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of the standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new standard defines a five step process

to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company is required to adopt this standard starting in the first quarter of fiscal year 2018 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within the standard; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined per the standard. The Company has not yet selected a transition method, and is in the process of determining the impact that the new standard will have on its consolidated financial statements.

In April 2015, the FASB released Accounting Standards Update 2015-3 Interest Imputation of Interest. The amendment requires that debt issuance costs related to recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company is required to adopt this standard starting in the first quarter of fiscal year 2017. The Company anticipates that upon adoption of the standard, approximately \$3.0 million of unrecognized debt issuance costs will be reclassified from non-current assets into non-current liabilities in our consolidated balance sheet.

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The Company has stock plans that provide for grants of equity-based awards to eligible participants, including stock options and restricted stock units ( RSUs ), of Lam Research common stock ( Common Stock ). An option is a right to purchase Common Stock at a set price. An RSU award is an agreement to issue a set number of shares of Common Stock at the time of vesting. The Company s options and RSU awards typically vest over a period of three years or less, although awards assumed in connection with the acquisition of Novellus Systems, Inc. ( Novellus ), have vesting terms up to four years. The Company also has an employee stock purchase plan that allows employees to purchase its Common Stock at a discount through payroll deductions.

The Company recognized the following equity-based compensation expense and related income tax benefit in the Condensed Consolidated Statements of Operations:

<b>Three Months Ended</b>	<b>Nine Months Ended</b>
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