

LAM RESEARCH CORP
Form 10-Q
February 06, 2014
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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 December 29, 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 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of	94-2634797 (I.R.S. Employer
incorporation or organization)	Identification No.)
4650 Cushing Parkway	
Fremont, California (Address of principal executive offices)	94538 (Zip Code)
(510) 572-0200	
(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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 January 31, 2014, the Registrant had 162,312,544 shares of common stock outstanding.

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	December 29, 2013 (unaudited)	June 30, 2013 (1)
ASSETS		
Cash and cash equivalents	\$ 1,132,555	\$ 1,162,473
Short-term investments	1,389,735	1,334,745
Accounts receivable, less allowance for doubtful accounts of \$5,315 as of December 29, 2013 and \$5,448 as of June 30, 2013	909,720	602,624
Inventories	661,572	559,317
Deferred income taxes	17,095	27,674
Prepaid expenses and other current assets	138,359	106,996
Total current assets	4,249,036	3,793,829
Property and equipment, net	546,193	603,910
Restricted cash and investments	166,395	166,536
Goodwill	1,457,320	1,452,196
Intangible assets, net	995,746	1,074,345
Other assets	141,108	159,499
Total assets	\$ 7,555,798	\$ 7,250,315
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	\$ 252,586	\$ 200,254
Accrued expenses and other current liabilities	529,119	464,528
Deferred profit	224,386	225,038
Current portion of long-term debt, convertible notes, and capital leases	516,481	514,655
Total current liabilities	1,522,572	1,404,475
Long-term debt, convertible notes, and capital leases	803,276	789,256
Income taxes payable	248,996	246,479
Other long-term liabilities	129,710	134,313
Total liabilities	2,704,554	2,574,523
Commitments and contingencies		

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Senior convertible notes	185,154	186,920
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 - 162,169 shares as of December 29, 2013 and 162,873 shares as of June 30, 2013	162	163
Additional paid-in capital	5,153,414	5,084,544
Treasury stock, at cost; 91,764 shares as of December 29, 2013 and 89,205 shares as of June 30, 2013	(3,679,151)	(3,539,830)
Accumulated other comprehensive loss	(15,521)	(28,693)
Retained earnings	3,207,186	2,972,688
Total stockholders' equity	4,666,090	4,488,872
Total liabilities and stockholders' equity	\$ 7,555,798	\$ 7,250,315

(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)

	Three Months Ended		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
Revenue	\$ 1,116,061	\$ 860,886	\$ 2,131,120	\$ 1,767,774
Cost of goods sold	628,272	545,472	1,211,473	1,118,474
Gross margin	487,789	315,414	919,647	649,300
Research and development	174,477	165,951	345,044	329,262
Selling, general and administrative	148,838	145,421	304,721	299,284
Total operating expenses	323,315	311,372	649,765	628,546
Operating income	164,474	4,042	269,882	20,754
Other expense, net	(3,837)	(13,390)	(18,099)	(23,328)
Income (loss) before income taxes	160,637	(9,348)	251,783	(2,574)
Income tax expense (benefit)	11,645	(15,756)	17,285	(11,750)
Net income	\$ 148,992	\$ 6,408	\$ 234,498	\$ 9,176
Net income per share:				
Basic	\$ 0.92	\$ 0.04	\$ 1.44	\$ 0.05
Diluted	\$ 0.87	\$ 0.04	\$ 1.37	\$ 0.05
Number of shares used in per share calculations:				
Basic	162,305	170,699	162,603	175,314
Diluted	171,757	173,027	171,592	177,490

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 29,	December 23,	December 29,	December 23,
	2013	2012	2013	2012
Net income	\$ 148,992	\$ 6,408	\$ 234,498	\$ 9,176
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	6,284	8,969	9,843	4,844
Cash flow hedges:				
Net unrealized gains during the period	4,328	2,347	8,835	1,628
Net losses (gains) reclassified into earnings	(3,017)	363	(6,819)	2,289
	1,311	2,710	2,016	3,917
Available-for-sale investments:				
Net unrealized gains (losses) during the period	386	(1,497)	1,073	1,192
Net gains reclassified into earnings	(218)	(923)	(145)	(942)
	168	(2,420)	928	250
Defined benefit plan, net change in unrealized component	71	164	385	323
Other comprehensive income, net of tax	7,834	9,423	13,172	9,334
Comprehensive income	\$ 156,826	\$ 15,831	\$ 247,670	\$ 18,510

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended	
	December 29,	December 23,
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 234,498	\$ 9,176
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	147,883	153,204
Deferred income taxes	12,457	(19,337)
Impairment of long-lived asset	7,632	
Equity-based compensation expense	46,281	48,441
Amortization of convertible note discount	16,339	15,595
Other, net	1,687	25,744
Changes in operating assets and liabilities	(285,829)	209,665
Net cash provided by operating activities	180,948	442,488
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(62,101)	(82,889)
Cash paid for business acquisition	(18,388)	(8,716)
Purchases of available-for-sale securities	(459,290)	(628,074)
Sales and maturities of available-for-sale securities	413,103	588,186
Repayments of notes receivable	10,000	
Proceeds from sale of assets	21,635	660
Transfer of restricted cash and investments	150	179
Net cash used for investing activities	(94,891)	(130,654)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(807)	(780)
Treasury stock purchases	(152,195)	(710,089)
Reissuances of treasury stock related to employee stock purchase plan	15,119	9,925
Proceeds from issuance of common stock	21,023	7,534
Net cash used for financing activities	(116,860)	(693,410)
Effect of exchange rate changes on cash	885	7,013
Net decrease in cash and cash equivalents	(29,918)	(374,563)

Cash and cash equivalents at beginning of period	1,162,473	1,564,752
Cash and cash equivalents at end of period	\$ 1,132,555	\$ 1,190,189

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 29, 2013

(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 30, 2013, which are included in the Annual Report on Form 10-K as of and for the year ended June 30, 2013 (the 2013 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*. 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 (the 2014 fiscal year) will end June 29, 2014 and includes 52 weeks. The quarters ended December 29, 2013 (the December 2013 quarter) and December 23, 2012 (the December 2012 quarter) both 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. We are required to adopt this standard starting fiscal year 2015 and are currently in the process of determining the impact, if any, on our financial position.

NOTE 3 EQUITY-BASED COMPENSATION PLANS

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 the Company s stock at a set price. An RSU award is an agreement to issue shares of the Company s 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:

	Three Months Ended		Six Months Ended	
	December 29,	December 23,	December 29,	December 23,
	2013	2012	2013	2012
	(in millions)			
Equity-based compensation expense	\$ 23.0	\$ 24.0	\$ 46.3	\$ 48.4