

LAM RESEARCH CORP
Form 10-Q
November 01, 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 September 23, 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 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

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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)	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 October 26, 2012 there were 171,342,079 shares of registrant's common stock outstanding.

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LAM RESEARCH CORPORATION

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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)**

	September 23, 2012 (unaudited)	June 24, 2012 (1)
ASSETS		
Cash and cash equivalents	\$ 1,411,466	\$ 1,564,752
Short-term investments	1,312,767	1,297,931
Accounts receivable, less allowance for doubtful accounts of \$5,366 as of September 23, 2012 and \$5,248 as of June 24, 2012	640,217	765,818
Inventories	567,920	632,853
Deferred income taxes	136,556	47,782
Prepaid expenses and other current assets	100,490	105,973
Total current assets	4,169,416	4,415,109
Property and equipment, net	593,202	584,596
Restricted cash and investments	166,196	166,335
Goodwill	1,446,303	1,446,303
Intangible assets, net	1,196,467	1,240,427
Other assets	152,762	151,882
Total assets	\$ 7,724,346	\$ 8,004,652
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 148,120	\$ 258,778
Accrued expenses and other current liabilities	496,528	492,178
Deferred profit	208,088	164,833
Current portion of long-term debt, convertible notes, and capital leases	1,521	511,139
Total current liabilities	854,257	1,426,928
Long-term debt, convertible notes, and capital leases	1,278,792	761,783
Income taxes payable	282,844	274,240
Other long-term liabilities	296,807	219,577
Total liabilities	2,712,700	2,682,528
Commitments and contingencies		
Senior convertible notes (Note 13)		190,343
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 175,341 shares as of September 23, 2012 and 186,656 shares as of June 24, 2012	175	187
Additional paid-in capital	5,159,457	4,943,539
Treasury stock, at cost; 73,876 shares as of September 23, 2012 and 62,068 shares as of June 24, 2012	(2,975,656)	(2,636,936)
Accumulated other comprehensive loss	(33,907)	(33,818)
Retained earnings	2,861,577	2,858,809

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Total stockholders' equity	5,011,646	5,131,781
Total liabilities and stockholders' equity	\$ 7,724,346	\$ 8,004,652

(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	
	September 23, 2012	September 25, 2011
Revenue	\$ 906,888	\$ 680,436
Cost of goods sold	573,002	396,553
Gross margin	333,886	283,883
Research and development	163,311	102,559
Selling, general and administrative	153,863	80,200
Restructuring and impairments		1,725
Total operating expenses	317,174	184,484
Operating income	16,712	99,399
Other expense, net	(9,938)	(12,073)
Income before income taxes	6,774	87,326
Income tax expense	4,006	15,488
Net income	\$ 2,768	\$ 71,838
Net income per share:		
Basic net income per share	\$ 0.02	\$ 0.58
Diluted net income per share	\$ 0.02	\$ 0.58
Number of shares used in per share calculations:		
Basic	179,928	123,130
Diluted	181,926	124,049

See Notes to Condensed Consolidated Financial Statements

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	Three Months Ended	
	September 23, 2012	September 25, 2011
Net income	\$ 2,768	\$ 71,838
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(4,125)	(14,910)
Unrealized gain (loss) on fair value of derivative financial instruments, net	1,926	(3,531)
Unrealized gain (loss) on financial instruments, net	2,689	(859)
Reclassification adjustment for gain included in earnings	(737)	(2,369)
Postretirement benefit plan adjustment	158	(4,526)
Other comprehensive loss	(89)	(26,195)
Comprehensive income	\$ 2,679	\$ 45,643

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended	
	September 23, 2012	September 25, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,768	\$ 71,838
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,816	21,360
Deferred income taxes	(12,017)	
Restructuring and impairment charges		1,725
Impairment of investment		1,724
Equity-based compensation expense	24,414	17,744
Income tax benefit on equity-based compensation plans		659
Excess tax benefit on equity-based compensation plans		(1,951)
Amortization of convertible note discount	7,752	6,593
Other, net	8,406	1,423
Changes in operating assets and liabilities	143,123	(34,215)
Net cash provided by operating activities	249,262	86,900
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(43,965)	(15,732)
Purchases of available-for-sale securities	(222,187)	(158,050)
Sales and maturities of available-for-sale securities	205,549	72,791
Transfer of restricted cash and investments	146	17
Net cash used for investing activities	(60,457)	(100,974)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(665)	(1,564)
Excess tax benefit on equity-based compensation plans		1,951
Net cash paid in advance for stock repurchase contracts		(75,000)
Treasury stock purchases	(355,079)	(72,053)
Reissuances of treasury stock related to employee stock purchase plan	9,925	8,858
Proceeds from issuance of common stock	951	164
Net cash used for financing activities	(344,868)	(137,644)
Effect of exchange rate changes on cash	2,777	(1,096)
Net decrease in cash and cash equivalents	(153,286)	(152,814)
Cash and cash equivalents at beginning of period	1,564,752	1,492,132
Cash and cash equivalents at end of period	\$ 1,411,466	\$ 1,339,318

See Notes to Condensed Consolidated Financial Statements

Table of Contents**LAM RESEARCH CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 23, 2012

(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 24, 2012, which are included in the Annual Report on Form 10-K as of and for the year ended June 24, 2012 (the 2012 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 Corporation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. We use the equity method to account for equity investments in instances in which we own common stock or similar interests and have the ability to exercise significant influence, but not control, over the investee. The Company s reporting period is a 52/53-week fiscal year. The Company s current fiscal year will end June 30, 2013 and includes 53 weeks. The quarters ended September 23, 2012 (the September 2012 quarter) and September 25, 2011 (the September 2011 quarter) each included 13 weeks.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (FASB) issued new authoritative guidance that increases the prominence of items reported in other comprehensive income (OCI) by eliminating the option to present components of OCI as part of the statement of changes in stockholders equity. The amendments in this standard require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted this guidance in the September 2012 quarter. The implementation of this authoritative guidance did not have an impact on the Company s financial position or results of operations, but did change the presentation of the Company s financial statements.

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 two years or less, although awards assumed in connection with the Novellus acquisition 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	
	September 23, 2012	September 25, 2011
	(in millions)	
Equity-based compensation expense	\$ 24.4	\$ 17.7
Income tax benefit related to equity-based compensation expense	\$ 5.7	\$ 2.7

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The estimated fair value of the Company's stock-based awards, less expected forfeitures, is amortized over the awards' vesting term on a straight-line basis. The increase in stock compensation expense during the three months ended September 23, 2012 as compared to the three months ended September 25, 2011 was primarily due to the increased number of RSUs and stock options outstanding as a result of awards assumed in connection with the Novellus acquisition.

Stock Options and RSUs

The 2007 Stock Incentive Plan provides for grants of equity-based awards to eligible participants. In June 2012, as part of the Novellus acquisition, Lam also assumed the Novellus Systems, Inc. 2011 Stock Incentive Plan (together with the 2007 Stock Incentive Plan, collectively the Plans), which provides for grants of equity-based awards to eligible participants. As of September 23, 2012, there were a total of 7,893,626 shares reserved to cover options and RSUs issued and outstanding under the Plans. As of September 23, 2012, there were an additional 15,821,889 shares reserved and available for future equity-based awards under the Plans.

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A summary of stock option activity under the Plans as of September 23, 2012 and changes during the three months then ended is presented below:

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value as of September 23, 2012 (in thousands)
Outstanding at June 24, 2012	3,902	\$ 25.14	4.79	
Exercised	(46)	\$ 20.72		
Forfeited or expired	(21)	\$ 22.13		
Outstanding at September 23, 2012	3,835	\$ 25.21	4.53	\$ 31,319
Exercisable at September 23, 2012	2,684	\$ 26.79	3.31	\$ 18,206

The total intrinsic value of options exercised during the three months ended September 23, 2012 and September 25, 2011 was \$0.6 million and \$0.2 million, respectively. As of September 23, 2012, there was \$10.0 million of total unrecognized compensation cost related to unvested stock options granted and outstanding; that cost is expected to be recognized over a weighted average remaining vesting period of 1.6 years.

A summary of the Company's RSUs as of September 23, 2012 and changes during the three months then ended is presented below:

Unvested Restricted Stock Units	Shares (in thousands)	Average Grant- Date Fair Value
Unvested at June 24, 2012	4,331	\$ 41.01
Granted	190	\$ 34.51
Vested	(393)	\$ 36.10
Forfeited	(69)	\$ 39.28
Unvested at September 23, 2012	4,059	\$ 41.21

The fair value of the Company's RSUs was calculated based upon the fair market value of the Company's stock at the date of grant. As of September 23, 2012, there was \$101.9 million of total unrecognized compensation expense related to unvested RSUs granted; that expense is expected to be recognized over a weighted average remaining period of 2.0 years.

ESPP

The 1999 Employee Stock Purchase Plan (as amended and restated, the 1999 ESPP) allows employees to designate a portion of their base compensation to be withheld through payroll deductions and used to purchase the Company's Common Stock at a purchase price per share equal to the lower of 85% of the fair market value of the Company's Common Stock on the first or last day of the applicable purchase period. Each offering period generally lasts up to 12 months and includes up to three interim purchase dates. As of September 23, 2012, there were a total of 10,304,484 shares available for issuance under the 1999 ESPP.

Purchase rights under the 1999 ESPP were valued using the Black-Scholes model assuming no expected dividends and the following weighted-average assumptions for the three months ended September 23, 2012:

	Three Months Ended September 23, 2012
Expected term (years)	0.7

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Expected stock price volatility	33.26%
Risk-free interest rate	0.16%

As of September 23, 2012, there was \$8.0 million of unrecognized compensation expense related to the 1999 ESPP, which is expected to be recognized over a remaining period of approximately 11 months.

Table of Contents**NOTE 4 FINANCIAL INSTRUMENTS**

The Company maintains an investment portfolio of various holdings, types, and maturities. The Company's mutual funds, which are related to the Company's obligations under the deferred compensation plan, are classified as trading securities. Investments classified as trading securities are recorded at fair value based upon quoted market prices. Differences between the cost and fair value of trading securities are recognized as other income (expense) in the Consolidated Statements of Operations. All of the Company's other short-term investments are classified as available-for-sale and consequently are recorded in the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax.

Fair Value

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

A fair value hierarchy has been established that prioritizes the inputs to valuation techniques used to measure fair value. The level of an asset or liability in the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities with sufficient volume and frequency of transactions.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or model-derived valuations techniques for which all significant inputs are observable in the market or can be corroborated by, observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities and based on non-binding, broker-provided price quotes and may not have been corroborated by observable market data.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurement at September 23, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets				
Short-Term Investments				
Money Market Funds	\$ 1,175,847	\$ 1,175,847	\$	\$
Municipal Notes and Bonds	325,648		325,648	
US Treasury and Agencies	179,213	179,213		
Government-Sponsored Enterprises	118,105		118,105	
Foreign Government Bonds	7,882		7,882	
Corporate Notes and Bonds	750,919	164,885	586,034	
Mortgage Backed Securities Residential	15,221		15,221	
Mortgage Backed Securities Commercial	81,463		81,463	
Total Short-Term Investments	\$ 2,654,298	\$ 1,519,945	\$ 1,134,353	\$
Equities	5,740	5,740		
Mutual Funds	19,553	19,553		
Derivative Assets	2,698		2,698	

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Total Assets	\$ 2,682,289	\$ 1,545,238	\$ 1,137,051	\$
Liabilities				
Derivative Liabilities	\$ 2,990	\$	\$ 2,607	\$ 383

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The amounts in the table above are reported in the Consolidated Balance Sheet as of September 23, 2012 as follows:

Reported Within:	Total	(Level 1)	(Level 2)	(Level 3)
		(In thousands)		
Cash Equivalents	\$ 1,176,646	\$ 1,175,847	\$ 799	\$
Short-Term Investments	1,312,767	179,213	1,133,554	
Restricted Cash and Investments	164,885	164,885		
Prepaid Expenses and Other Current Assets	2,698		2,698	
Other Assets	25,293	25,293		
Total Assets	\$ 2,682,289	\$ 1,545,238	\$ 1,137,051	\$
Accrued Expenses and Other Current Liabilities	\$ 2,607	\$	\$ 2,607	\$
Other Non-current Liabilities	383			\$ 383
Total Liabilities	\$ 2,990	\$	\$ 2,607	\$ 383

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis:

	Total	Fair Value Measurement at June 24, 2012		
		Quoted Prices in Active Markets for		Significant Unobservable
		Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Inputs (Level 3)
		(In thousands)		
Assets				
Short-Term Investments				
Money Market Funds	\$ 1,318,812	\$ 1,318,812	\$	\$
Municipal Notes and Bonds	322,567		322,567	
US Treasury and Agencies	137,446	130,624	6,822	
Government-Sponsored Enterprises	123,268		123,268	
Foreign Government Bond	6,358		6,358	
Corporate Notes and Bonds	768,901	164,885	604,016	
Mortgage Backed Securities Residential	25,972		25,972	
Mortgage Backed Securities Commercial	84,853		84,853	
Total Short-Term Investments	\$ 2,788,177	\$ 1,614,321	\$ 1,173,856	\$
Equities	5,913	5,913		
Mutual Funds	17,754	17,754		
Derivative Assets	5,020		5,020	
Total Assets	\$ 2,816,864	\$ 1,637,988	\$ 1,178,876	\$
Liabilities				
Derivative Liabilities	\$ 4,529	\$	\$ 4,328	\$ 201

The amounts in the table above are reported in the Consolidated Balance Sheet as of June 24, 2012 as follows:

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Reported Within:	Total	(Level 1) (In thousands)	(Level 2)	(Level 3)
Cash Equivalents	\$ 1,325,361	\$ 1,318,812	\$	