

LAM RESEARCH CORP
Form 10-Q
May 03, 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 March 25, 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 April 27, 2012 there were 120,264,497 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)**

	March 25, 2012 (unaudited)	June 26, 2011 (1)
ASSETS		
Cash and cash equivalents	\$ 1,410,267	\$ 1,492,132
Short-term investments	993,696	630,115
Accounts receivable, less allowance for doubtful accounts of \$5,258 as of March 25, 2012 and \$4,720 as of June 26, 2011	471,776	590,568
Inventories	376,126	396,607
Deferred income taxes	78,719	78,435
Prepaid expenses and other current assets	93,325	85,408
Total current assets	3,423,909	3,273,265
Property and equipment, net	279,955	270,458
Restricted cash and investments	165,220	165,256
Deferred income taxes		3,892
Goodwill	169,182	169,182
Intangible assets, net	34,094	47,434
Other assets	120,903	124,380
Total assets	\$ 4,193,263	\$ 4,053,867
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	\$ 179,445	\$ 163,541
Accrued expenses and other current liabilities	330,103	358,756
Deferred profit	139,607	153,680
Current portion of long-term debt, convertible notes, and capital leases	2,500	4,782
Total current liabilities	651,655	680,759
Long-term debt, convertible notes, and capital leases	755,427	738,488
Income taxes payable	115,570	113,582
Other long-term liabilities	61,469	51,193
Total liabilities	1,584,121	1,584,022
Commitments and contingencies		
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 - 119,775 shares as of March 25, 2012 and 123,579 shares as of June 26, 2011	120	124
Additional paid-in capital	1,747,025	1,531,465
Treasury stock, at cost; 45,926 shares as of March 25, 2012 and 40,995 shares as of June 26, 2011	(1,962,555)	(1,761,591)
Accumulated other comprehensive income (loss)	(16,188)	9,761
Retained earnings	2,840,740	2,690,086

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Total stockholders' equity	2,609,142	2,469,845
Total liabilities and stockholders' equity	\$ 4,193,263	\$ 4,053,867

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements

Table of Contents**LAM RESEARCH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	Three Months Ended		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
Revenue	\$ 658,961	\$ 809,087	\$ 1,923,378	\$ 2,485,675
Cost of goods sold	391,814	435,068	1,138,381	1,326,897
Cost of goods sold - restructuring and impairments			(859)	
Total costs of goods sold	391,814	435,068	1,137,522	1,326,897
Gross margin	267,147	374,019	785,856	1,158,778
Research and development	113,448	96,880	320,031	273,710
Selling, general and administrative	95,581	80,143	259,037	228,137
Restructuring and impairments			1,725	(5,163)
Total operating expenses	209,029	177,023	580,793	496,684
Operating income	58,118	196,996	205,063	662,094
Other income (expense), net	(3,568)	1,663	(23,426)	1,722
Income before income taxes	54,550	198,659	181,637	663,816
Income tax expense	8,946	16,419	30,983	65,996
Net income	\$ 45,604	\$ 182,240	\$ 150,654	\$ 597,820
Net income per share:				
Basic net income per share	\$ 0.38	\$ 1.47	\$ 1.25	\$ 4.84
Diluted net income per share	\$ 0.38	\$ 1.45	\$ 1.24	\$ 4.78
Number of shares used in per share calculations:				
Basic	119,841	123,674	120,904	123,482
Diluted	120,956	125,293	121,830	125,097

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended	
	March 25, 2012	March 27, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 150,654	\$ 597,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,249	54,787
Deferred income taxes	3,090	(4,555)
Restructuring and impairment charges	866	(5,163)
Impairment of investment	1,724	
Equity-based compensation expense	52,385	38,224
Income tax benefit on equity-based compensation plans	81	19,492
Excess tax benefit on equity-based compensation plans	(2,292)	(15,106)
Amortization of convertible note discount	20,014	
Other, net	3,671	(2,818)
Changes in operating assets and liabilities	105,871	239
Net cash provided by operating activities	402,313	682,920
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(70,392)	(92,924)
Purchases of available-for-sale securities	(638,637)	(132,662)
Sales and maturities of available-for-sale securities	266,959	95,928
Purchase of equity method investment	(10,740)	
Receipt of loan payments	8,375	
Proceeds from sale of assets	2,677	1,544
Purchase of other investments		(417)
Transfer of restricted cash and investments	23	(14)
Net cash used for investing activities	(441,735)	(128,545)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(4,164)	(4,449)
Excess tax benefit on equity-based compensation plans	2,292	15,106
Net cash received in settlement (paid in advance for) stock repurchase contracts	55,194	(50,000)
Treasury stock purchases	(111,604)	(157,563)
Reissuances of treasury stock related to employee stock purchase plan	16,760	13,676
Proceeds from issuance of common stock	1,776	10,222
Net cash used for financing activities	(39,746)	(173,008)
Effect of exchange rate changes on cash	(2,697)	15,576
Net increase (decrease) in cash and cash equivalents	(81,865)	396,943
Cash and cash equivalents at beginning of period	1,492,132	545,767
Cash and cash equivalents at end of period	\$ 1,410,267	\$ 942,710

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See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 25, 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 26, 2011, which are included in the Annual Report on Form 10-K as of and for the year ended June 26, 2011 (the 2011 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 24, 2012 and includes 52 weeks. The quarters ended March 25, 2012 (the March 2012 quarter) and March 27, 2011 (the March 2011 quarter) each included 13 weeks.

Certain amounts presented in the comparative financial statements for prior years have been reclassified to conform to the fiscal year 2012 presentation.

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. This guidance does not affect the underlying accounting for components of OCI, but will change the presentation of the Company s financial statements. The Company will adopt this authoritative guidance retrospectively in the first quarter of its fiscal year 2013.

In September 2011, the FASB issued revised guidance intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2013 and early adoption is permitted. The Company is currently evaluating this accounting standard update and does not expect it to have an impact on its Consolidated 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. 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		Nine Months Ended	
	March 25, 2012	March 27, 2011	March 25, 2012	March 27, 2011
	(in millions)			
Equity-based compensation expense	\$ 16.4	\$ 12.5	\$ 52.4	\$ 38.2
Income tax benefit related to equity-based compensation expense	\$ 2.2	\$ 2.1	\$ 7.1	\$ 6.4

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.

Table of Contents**Stock Options and RSUs**

The 2007 Stock Incentive Plan provides for grants of equity-based awards to eligible participants. Additional shares are reserved for issuance under the Company's 1997 Stock Incentive Plan and its 1999 Stock Option Plan pursuant to awards previously granted under those plans (together with the 2007 Stock Incentive Plan, the Plans). As of March 25, 2012, there were a total of 2,593,779 shares reserved to cover options and RSUs issued and outstanding under the Plans. As of March 25, 2012, there were an additional 7,670,108 shares reserved and available for future equity-based awards under the 2007 Stock Incentive Plan.

A summary of stock option activity under the Plans as of March 25, 2012 and changes during the nine 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 March 25, 2012 (in thousands)
Outstanding at June 26, 2011	310	\$ 21.50	2.26	
Exercised	(75)	\$ 23.70		
Forfeited or expired	(4)	\$ 21.60		
Outstanding at March 25, 2012	231	\$ 20.78	1.98	\$ 5,320
Exercisable at March 25, 2012	231	\$ 20.78	1.98	\$ 5,320

The total intrinsic value of options exercised during the three months ended March 25, 2012 and March 27, 2011 was \$0.1 million and \$9.2 million, respectively. The total intrinsic value of options exercised during the nine months ended March 25, 2012 and March 27, 2011 was \$1.3 million and \$14.0 million, respectively.

As of March 25, 2012, all stock options outstanding were fully vested and all related compensation expense has been recognized.

A summary of the Company's RSUs as of March 25, 2012 and changes during the nine months then ended is presented below:

Unvested Restricted Stock Units	Shares (in thousands)	Average Grant- Date Fair Value
Unvested at June 26, 2011	2,331	\$ 39.90
Granted	1,136	\$ 40.46
Vested	(1,052)	\$ 34.78
Forfeited	(52)	\$ 39.78
Unvested at March 25, 2012	2,363	\$ 42.55

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 March 25, 2012, there was \$55.9 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 1.2 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 March 25, 2012, there were a total of

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10,928,473 shares available for issuance under the 1999 ESPP.

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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 and nine months ended March 25, 2012:

	Three Months Ended March 25, 2012	Nine Months Ended March 25, 2012
Expected term (years)	0.68	0.73
Expected stock price volatility	44.39%	44.33%
Risk-free interest rate	0.10%	0.11%

As of March 25, 2012, there was \$4.1 million of unrecognized compensation expense related to the 1999 ESPP, which is expected to be recognized over the next 0.4 years.

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.

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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 March 25, 2012		
		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	\$ 1,285,652	\$ 1,285,652	\$	\$
Municipal Notes and Bonds	360,464		360,464	
US Treasury and Agencies	77,523	77,523		
Government-Sponsored Enterprises	48,935		48,935	
Foreign Government Bonds	2,544		2,544	
Corporate Notes and Bonds	597,183	164,885	432,298	
Mortgage Backed Securities - Residential	11,562		11,562	
Mortgage Backed Securities - Commercial	60,371		60,371	
Total Short-Term Investments	\$ 2,444,234	\$ 1,528,060	\$ 916,174	\$
Equities	7,301	7,301		
Mutual Funds	24,639	24,639		
Derivative Assets	8,850		8,850	
Total	\$ 2,485,024	\$ 1,560,000	\$ 925,024	\$
Liabilities				
Derivative Liabilities	\$ 2,914	\$	\$ 2,914	\$

The amounts in the table above are reported in the Consolidated Balance Sheet as of March 25, 2012 as follows:

Reported As:	Total	(Level 1)	(Level 2)	(Level 3)
(In thousands)				
Cash Equivalents	\$ 1,285,653	\$ 1,285,653	\$	\$
Short-Term Investments	993,696	77,522	916,174	
Restricted Cash and Investments	164,885	164,885		
Prepaid Expenses and Other Current Assets	31,940	31,940		
Other Assets	8,850		8,850	
Total	\$ 2,485,024	\$ 1,560,000	\$ 925,024	\$
Accrued Expenses and Other Current Liabilities	\$ 2,914	\$	\$ 2,914	\$

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

	Fair Value Measurement at June 26, 2011			
	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	\$ 1,300,098	\$ 1,300,098	\$	\$
Municipal Notes and Bonds	321,339		321,339	
US Treasury and Agencies	8,496	8,496		
Government-Sponsored Enterprises	19,868		19,868	
Foreign Government Bond	1,005		1,005	
Corporate Notes and Bonds	382,432	164,885	217,547	
Mortgage Backed Securities - Residential	2,633		2,633	
Mortgage Backed Securities - Commercial	60,729		60,729	
Total Short-Term Investments	\$ 2,096,600	\$ 1,473,479	\$ 623,121	