LAM RESEARCH CORP
Form 10-Q
February 06, 2009

Table of Contents

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 December 28, 2008

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 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**94-2634797**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

4650 Cushing Parkway
Fremont, California 94538

(Address of principal executive offices including 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 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 Exchange Act Rule 12b-2 of the Exchange Act).

Yes o No þ

As of January 29, 2009, there were 125,531,613 shares of Registrant s Common Stock outstanding.

LAM RESEARCH CORPORATION
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

LAM RESEARCH CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 28, 2008 (unaudited)	June 29, 2008 (1)
ASSETS		
Cash and cash equivalents	$ 652,913	$ 732,537
Short-term investments	297,399	326,199
Accounts receivable, less allowance for doubtful accounts of $3,943 as of December 28, 2008 and $4,102 as of June 29, 2008	290,565	412,356
Inventories	269,959	282,218
Deferred income taxes	93,002	96,748
Prepaid expenses and other current assets	56,648	67,649
Total current assets	1,660,486	1,917,707
Property and equipment, net	233,250	235,735
Restricted cash and investments	168,405	146,072
Deferred income taxes	25,836	19,793
Goodwill	270,682	281,298
Intangible assets, net	101,305	121,889
Other assets	78,457	84,261
Total assets	$ 2,538,421	$ 2,806,755
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	$ 39,808	$ 89,158
Accrued expenses and other current liabilities	322,547	390,062
Deferred profit	54,158	128,250
Current portion of long-term debt and capital leases	29,899	30,209
Total current liabilities	446,412	637,679
Long-term debt and capital leases	257,135	276,121
Income taxes payable	92,382	85,611
Other long-term liabilities	21,300	23,400
Total liabilities	817,229	1,022,811
Minority interests		5,347
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 - 125,088 shares at December 28, 2008 and 125,187 shares at June 29, 2008	125	125
Additional paid-in capital	1,364,450	1,332,159
Treasury stock, at cost, 35,188 shares at December 28, 2008 and 34,220 shares at June 29, 2008	(1,510,716)	(1,490,701)
Accumulated other comprehensive income (loss)	(43,762)	10,620
Retained earnings	1,911,095	1,926,394
Total stockholders equity	1,721,192	1,778,597
Total liabilities and stockholders equity	$ 2,538,421	$ 2,806,755

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements

3

Table of Contents

LAM RESEARCH CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	December 28, 2008	December 23, 2007	December 28, 2008	December 23, 2007
Total revenue	$ 283,409	$ 610,320	$ 723,770	$ 1,294,941
Cost of goods sold	174,329	302,659	428,532	643,393
Cost of goods sold restructuring and asset impairments	7,728		10,776	
Total cost of goods sold	182,057	302,659	439,308	643,393
Gross margin	101,352	307,661	284,462	651,548
Research and development	68,781	80,243	150,344	156,531
Selling, general and administrative	59,842	66,084	128,902	135,797
Restructuring and asset impairments	10,121		26,089	
Total operating expenses	138,744	146,327	305,335	292,328
Operating income (loss)	(37,392)	161,334	(20,873)	359,220
Other income (expense), net	(7,233)	(37)	1,784	7,596
Income (loss) before income taxes	(44,625)	161,297	(19,089)	366,816
Income tax expense (benefit)	(20,453)	46,238	(3,790)	103,169
Net income (loss)	$ (24,172)	$ 115,059	$ (15,299)	$ 263,647
Net income (loss) per share:				
Basic net income (loss) per share	$ (0.19)	$ 0.92	$ (0.12)	$ 2.12
Diluted net income (loss) per share	$ (0.19)	$ 0.91	$ (0.12)	$ 2.08
Number of shares used in per share calculations:				
Basic	125,084	124,685	125,266	124,370
Diluted	125,084	126,653	125,266	126,523

See Notes to Condensed Consolidated Financial Statements

Table of Contents

LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended	
	December 28, 2008	December 23, 2007
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (15,299)	$ 263,647
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	35,073	22,563
Deferred income taxes	(2,297)	(10,014)
Equity-based compensation expense	29,457	20,615
Income tax benefit on equity-based compensation plans	(2,006)	57,177
Excess tax benefit on equity-based compensation plans	(517)	(37,639)
Restructuring and asset impairments	36,865	
Other, net	5,865	11,316
Changes in operating asset accounts	(82,998)	(83,778)
Net cash provided by operating activities	4,143	243,887
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(27,568)	(38,561)
Acquisitions of businesses, net of cash acquired	(11,190)	
Purchases of available-for-sale securities	(143,667)	(101,665)
Sales and maturities of available-for-sale securities	190,414	69,780
Purchase of call option		(10,279)
Purchase of other investments		(4,560)
Other	(2,000)	(2,248)
Transfer of restricted cash and investments	(48,306)	(1,074)
Net cash used for investing activities	(42,317)	(88,607)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(15,433)	(100)
Net proceeds from issuance of long-term debt	625	
Excess tax benefit on equity-based compensation plans	517	37,639
Treasury stock purchases	(27,203)	(10,225)
Reissuances of treasury stock	7,584	7,301
Proceeds from issuance of common stock	4,444	10,106
Net cash provided by (used for) financing activities	(29,466)	44,721
Effect of exchange rate changes on cash	(11,984)	2,087

Net increase (decrease) in cash and cash equivalents	(79,624)	202,088
Cash and cash equivalents at beginning of period	732,537	573,967
Cash and cash equivalents at end of period	$ 652,913	$ 776,055

See Notes to Condensed Consolidated Financial Statements

5

Table of Contents

LAM RESEARCH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 28, 2008
(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 for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles 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, 2008, which are included in the Annual Report on Form 10-K as of and for the year ended June 29, 2008 (the 2008 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 the Forms 10-K, Forms 10-Q and Forms 8-K on the corporate website at www.lamresearch.com.

The Company s reporting period is a 52/53-week fiscal year. The Company s current fiscal year will end June 28, 2009 and includes 52 weeks. The quarters ended December 28, 2008 and December 23, 2007 each included 13 weeks.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

On June 30, 2008, the Company adopted the required portions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). There was no material impact to the Company s consolidated financial statements from the adoption of SFAS No. 157. This Statement defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 currently applies to all financial assets and liabilities, and nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 157-2, delaying the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value on a recurring basis. The delayed portions of SFAS No. 157 will be adopted by the Company beginning in its fiscal year ending June 27, 2010. In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset in a Market That Is Not Active, which clarifies the application of Statement 157 when the market for a financial asset is inactive. Specifically, FSP FAS 157-3 clarifies how (1) management s internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance of FSB FAS 157-3 is effective immediately and the Company has adopted its provisions with respect to its financial assets and liabilities as of September 28, 2008. The impact of adopting the non-delayed portions of SFAS No. 157 is more fully described in Note 4.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement was effective for the Company beginning June 30, 2008. The Company has not applied the fair value option to any items; therefore, the Statement did not have an impact on the consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008. The Company expects to adopt SFAS No. 141R in the beginning of fiscal year 2010 and is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on its consolidated results of operations and financial condition.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for the treatment of noncontrolling interests in a subsidiary. Noncontrolling interests in a subsidiary will be reported as a component of equity in the consolidated financial statements and any retained noncontrolling equity investment upon deconsolidation of a subsidiary is initially measured at fair value. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 160 will result in the reclassification of minority interests to stockholders equity. The Company is currently assessing any further impacts of SFAS 160 on its results of operations and financial condition.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement 133 (SFAS 161). SFAS 161 requires expanded and enhanced disclosure for

Table of Contents

derivative instruments, including those used in hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the impact of the adoption of SFAS 161 on its consolidated financial statement disclosures.

In April 2008, the FASB issued FASB Staff Position Statement of Financial Accounting Standards 142-3, Determination of the Useful Life of Intangible Assets (FSP SFAS 142-3). FSP SFAS 142-3 provides guidance with respect to estimating the useful lives of recognized intangible assets acquired on or after the effective date and requires additional disclosure related to the renewal or extension of the terms of recognized intangible assets. FSP SFAS 142-3 is effective for fiscal years and interim periods beginning after December 15, 2008. The Company is currently assessing the impact of the adoption of FSP SFAS 142-3 on its results of operations and financial condition.

NOTE 3 EQUITY-BASED COMPENSATION PLANS

The Company has adopted stock plans that provide for the grant to eligible participants of equity-based awards, including stock options and restricted stock units, of Lam Research common stock (Common Stock). The Company also has an employee stock purchase plan (ESPP) that allows employees to purchase its Common Stock.

The Company accounts for equity-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R) using the modified prospective method. The Company recognized equity-based compensation expense of $14.0 million and $9.8 million during the three months ended December 28, 2008 and December 23, 2007, respectively. The Company recognized equity-based compensation expense of $29.5 million and $20.6 million during the six months ended December 28, 2008 and December 23, 2007, respectively. The income tax benefit recognized in the consolidated statements of operations related to equity-based compensation expense was $2.5 million and $1.3 million during the three months ended December 28, 2008 and December 23, 2007, respectively. The income tax benefit recognized in the consolidated statements of operations related to equity-based compensation expense was $5.3 million and $2.9 million during the six months ended December 28, 2008 and December 23, 2007, respectively. The estimated fair value of the Company s stock-based awards, less expected forfeitures, is amortized over the awards vesting period on a straight-line basis for awards granted after the adoption of SFAS No. 123R and on a graded vesting basis for awards granted prior to the adoption of SFAS No. 123R.

Stock Options and Restricted Stock Units

The 2007 Stock Incentive Plan provides for the grant of non-qualified equity-based awards to eligible participants. Additional shares are reserved for issuance pursuant to awards previously granted under the Company s 1997 Stock Incentive Plan and its 1999 Stock Option Plan. As of December 28, 2008, there were a total of 3,751,249 equity-based awards issued and outstanding. There were an additional 12,754,875 shares reserved and available for future issuance under the 2007 Stock Incentive Plan (Plan) as of December 28, 2008.

The Company did not grant any stock options during the three and six months ended December 28, 2008 and December 23, 2007.

A summary of stock option activity under the Plans as of December 28, 2008 and changes during the six 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 December 28, 2008 (in thousands)
Outstanding at June 29, 2008	2,607	21.60	1.59	
Granted				
Exercised	(314)	14.13		

Forfeited or expired	(17)	$	29.56			
Outstanding at December 28, 2008	2,276	$	22.60	1.20	$	5,257
Exercisable at December 28, 2008	2,267	$	22.59	1.20	$	5,246

The total intrinsic value of options exercised during the three and six months ended December 28, 2008 was $7.4 million and $9.5 million, respectively. The total intrinsic value of options exercised during the three and six months ended December 23, 2007 was $6.7 million and $18.6 million, respectively. As of December 28, 2008, there was less than $0.1 million of total unrecognized compensation cost related to nonvested stock options granted and outstanding; that cost is expected to be recognized through fiscal year 2009, with a weighted average remaining period of less than one year. Cash received from stock option exercises was $1.3 million and $4.4 million during the three and six

Table of Contents

months ended December 28, 2008, respectively. Cash received from stock option exercises was $3.4 million and $10.1 million during the three and six months ended December 23, 2007, respectively.

A summary of the status of the Company s restricted stock units as of December 28, 2008, and changes during the six months then ended is presented below:

Nonvested Restricted Stock Units	Shares (in thousands)	Average Grant-Date Fair Value
Nonvested at June 29, 2008	1,696	$ 46.51
Granted	453	34.01
Vested	(552)	41.97
Forfeited	(122)	45.70
Nonvested at December 28, 2008	1,475	$ 40.97

The fair value of the Company s restricted stock units was calculated based upon the fair market value of the Company s stock at the date of grant. As of December 28, 2008, there was $36.4 million of total unrecognized compensation cost related to nonvested restricted stock units granted; that cost is expected to be recognized over a weighted average remaining period of 1.1 years.

ESPP

The 1999 Employee Stock Purchase Plan (the 1999 ESPP) allows employees to designate a portion of their base compensation to be used to purchase the Company s Common Stock at a purchase price per share of the lower of 85% of the fair market value of the Company s Common Stock on the first or last day of the applicable offering period. Typically, each offering period lasts 12 months and comprises three interim purchase dates. As of December 28, 2008, there were a total of 6,141,631 shares available for issuance under the 1999 ESPP.

ESPP awards were valued using the Black-Scholes model with expected volatility calculated using implied volatility. ESPP awards were valued assuming no expected dividends and the following weighted-average assumptions for the three and six months ended December 28, 2008:

Expected life (years)	0.68
Expected stock price volatility	45.0%
Risk-free interest rate	1.9%

As of December 28, 2008, there was $4.9 million of total unrecognized compensation cost related to the 1999 ESPP that is expected to be recognized over a remaining period of 0.8 years.

Table of Contents

NOTE 4 FINANCIAL INSTRUMENTS

The Company adopted the required portions of the fair value measurement and disclosure provisions of SFAS No. 157 on June 30, 2008. SFAS No. 157 establishes specific criteria for the fair value measurements of financial and nonfinancial assets and liabilities that are already subject to fair value measurements under current accounting rules. SFAS No. 157 also requires expanded disclosures related to fair value measurements.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. An asset or liability s level is based on the lowest level of input that is significant to the fair value measurement. This Statement requires that assets and liabilities carried at fair value be 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.

The Company s Level 1 assets consist of money market fund deposits, U.S. Treasury securities, and equity instruments, all of which are traded in an active market with sufficient volume and frequency of transactions.

Level 2: Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

The Company s Level 2 assets and liabilities include U.S. agency securities, bank time deposits, government sponsored enterprises, bank and corporate notes, municipal notes and bonds, mortgage and asset-backed securities, equity securities, derivative assets and liability contracts, which are priced using inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3: Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities

The Company had no Level 3 assets or liabilities as of December 28, 2008.

The following table sets forth the Company s financial assets and liabilities that were recorded at fair value on a recurring basis during the quarter, by level, within the fair value hierarchy at December 28, 2008:

		Fair Value Measurement at December 28, 2008		
	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				
Fixed Income				
Cash equivalents	$ 567,746	$ 567,746	$	$
U.S. Treasuries and Agencies	47,157	41,769	5,388	
Government Sponsored Enterprises	26,616		26,616	
Bank and Corporate Notes	216,599		216,599	
Municipal Notes and Bonds	161,720		161,720	
Total fixed income	1,019,838	609,515	410,323	
Equities	3,404	3,306	98	
Derivatives assets	178		178	
Total	$ 1,023,420	$ 612,821	$ 410,599	$

Liabilities							
Derivatives liabilities	$	7,686	$		$	7,686	$

9

The amounts in the table above are reported in the consolidated balance sheet as of December 28, 2008 as follows:

	Total	Level 1	Level 2	Level 3
		(in thousands)		
Cash equivalents	$ 554,198	$ 554,198	$	$
Short-term investments	297,399	41,769	255,630	
Restricted cash and investments	168,339	13,548	154,791	
Prepaid expenses and other current assets	178		178	
Other assets	3,306	3,306		
	$ 1,023,420	$ 612,821	$ 410,599	
Accrued expenses and other current liabilities	$ 7,686	$	$ 7,686	$

NOTE 5 INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipments to Japanese customers are classified as inventory and carried at cost until title transfers. Inventories consist of the following:

	December 28, 2008	June 29, 2008
	(in thousands)	
Raw materials	$ 160,106	$ 157,135
Work-in-process	49,282	54,684
Finished goods	60,571	70,399