

Highlights for the December 2013 quarter were as follows:

- Shipments of \$1,139 million, up 15% from the prior quarter
- Revenue of \$1,116 million, up 10% from the prior quarter
- GAAP gross margin of 43.7%, GAAP operating margin of 14.7% and GAAP diluted EPS of \$0.87
- Non-GAAP gross margin of 45.8%, non-GAAP operating margin of 18.7%, and non-GAAP diluted EPS of \$1.10

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Revenue for the period was \$1,116 million, gross margin was \$487.8 million, or 43.7% of revenue, operating expenses were \$323.3 million, and net income was \$149.0 million, or \$0.87 per diluted share on a GAAP basis. This compares to revenue of \$1,015 million, gross margin of \$431.9 million, or 42.5% of revenue, operating expenses of \$326.5 million, and net income of \$85.5 million, or \$0.50 per diluted share, for the September 2013 quarter.

Non-GAAP gross margin was \$510.8 million, or 45.8% of revenue, non-GAAP operating expenses were \$302.1 million, and non-GAAP net income was \$188.7 million, or \$1.10 per diluted share. This compares to non-GAAP gross margin of \$456.7 million, or 45.0% of revenue, non-GAAP operating expenses of \$291.9 million, and non-GAAP net income of \$139.2 million, or \$0.81 per diluted share, for the September 2013 quarter.

"Calendar 2013 was an extraordinary year for Lam Research, highlighted by strong operating and financial performance. Our December quarter results closed the year with record shipments, record revenues and earnings that exceeded our expectations," stated Martin Anstice, Lam Research's president and chief executive officer. "Our outlook for continued healthy levels of wafer fab equipment spending in 2014 reflects our customers' planned investments in key technology inflections tempered by their focus on maintaining balanced supply and demand. Against this industry back drop, we are further strengthening our emphasis on customer trust and improving competitiveness to reinforce the opportunities for future growth and enhanced financial performance of Lam."

Cash and cash equivalents, short-term investments, and restricted cash and investment balances increased to \$2.7 billion at the end of the December 2013 quarter compared to \$2.6 billion at the end of the September 2013 quarter. This increase was primarily the result of approximately \$129 million in cash flows from operating activities during the December 2013 quarter, partially offset by \$48 million of stock repurchases.

Deferred revenue and deferred profit balances at the end of the December 2013 quarter increased to \$405.0 million and \$224.4 million, respectively, as compared to \$334.0 million and \$188.4 million, respectively, at the end of the September 2013 quarter. Lam's deferred revenue balance does not include shipments to Japanese customers, to whom title does not transfer until customer acceptance. Shipments to Japanese customers are classified as inventory at cost until the time of acceptance. The anticipated future revenue from shipments to Japanese customers was approximately \$53.5 million as of December 29, 2013.

The geographic distribution of shipments and revenue during the December 2013 quarter is shown in the following table:

			a percent of revenue			43.7			%			42.5			%			36.6			%			43.2										
Research and development						174,477						170,567						165,951						345,044										
Selling, general and administrative						148,838						155,883						145,421						304,721										
		Total operating expenses				323,315						326,450						311,372						649,765										
Operating income						164,474						105,408						4,042						269,882										
		Operating margin as a percent of revenue				14.7			%						10.4			%						0.5			%					12.7		
Other expense, net						(3,837)						(14,262)						(13,390)					(18,099		
	Income before income taxes					160,637						91,146						(9,348)						251,783							
Income tax expense (benefit)						11,645						5,640						(15,756)						17,285							
	Net income				\$	148,992						\$	85,506						\$	6,408						\$	234,498							
Net income per share:																																		
	Basic net income per share				\$	0.92						\$	0.52						\$	0.04						\$	1.44							
	Diluted net income per share				\$	0.87						\$	0.50						\$	0.04						\$	1.37							
Number of shares used in per share calculations:																																		
Basic						162,305						162,896						170,699						162,603										
	Diluted					171,757						171,363						173,027						171,592										

LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

			December 29,			September 29,			June 30,		
			2013			2013			2013		
			(unaudited)			(unaudited)			(1)		
ASSETS											
Cash and cash equivalents			\$	1,132,555	\$	1,156,184	\$	1,162,473			
Short-term investments				1,389,735		1,300,031		1,334,745			
Accounts receivable, net				909,720		713,524		602,624			
Inventories				661,572		614,790		559,317			
Deferred income taxes				17,095		29,090		27,674			
Other current assets				138,359		110,633		106,996			
	Total current assets			4,249,036		3,924,252		3,793,829			
Property and equipment, net				546,193		564,845		603,910			

	Equity-based compensation expense		23,046				23,235				24,027				46,281		
	Amortization of convertible note discount		8,217				8,122				7,843				16,339		
	Other, net		(2,428)			4,115				14,694				1,687		
	Changes in operating assets and liabilities:		(135,441)			(150,388)			69,186				(285,829)	
	Net cash provided by operating activities		129,023				51,925				193,226				180,948		
CASH FLOWS FROM INVESTING ACTIVITIES:																	
	Capital expenditures and intangible assets		(38,323)			(23,778)			(38,924)			(62,101)	
	Cash paid for business acquisition		(18,388)			-				(8,716)			(18,388)	
	Net sales/maturities (purchases) of available-for-sale securities		(88,754)			42,567				(23,250)			(46,187)	
	(Issuance) repayments of notes receivable		10,000				-				-				10,000		
	Proceeds from sale of assets		21,635				-				660				21,635		
	Transfer of restricted cash and investments		-				150				33				150		
	Net cash provided by (used for) investing activities		(113,830)			18,939				(70,197)			(94,891)	
CASH FLOWS FROM FINANCING ACTIVITIES:																	
	Principal payments on long-term debt and capital lease obligations		(719)			(88)			(115)			(807)	
	Treasury stock purchases		(47,910)			(104,285)			(355,010)			(152,195)	
	Reissuances of treasury stock related to employee stock purchase plan		(35)			15,154				-				15,119		
	Proceeds from issuance of common stock		8,449				12,574				6,583				21,023		
	Net cash used for financing activities		(40,215)			(76,645)			(348,542)			(116,860)	
	Effect of exchange rate changes on cash		1,393				(508)			4,236				885		
	Net decrease in cash and cash equivalents		(23,629)			(6,289)			(221,277)			(29,918)	
	Cash and cash equivalents at beginning of period		1,156,184				1,162,473				1,411,466				1,162,473		
	Cash and cash equivalents at end of period	\$	1,132,555			\$	1,156,184			\$	1,190,189			\$	1,132,555		

U.S. GAAP net income		\$	148,992			\$	85,506	
Pre-tax non-GAAP items:								
Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold			21,491				21,480	
Acquisition-related inventory fair value impact - cost of goods sold			1,225				2,047	
Integration costs - cost of goods sold			264				1,324	
Integration costs - operating expenses			2,785				8,063	
Amortization related to intangible assets acquired in Novellus transaction - operating expenses			16,953				16,947	
Restructuring charges - operating expenses			-				1,705	
Costs associated with rationalization of certain product configurations - operating expenses			846				844	
Impairment of long lived asset - operating expenses			628				7,004	

Amortization of convertible note discount, Lam notes - other expense, net			7,329				7,243	
Amortization of convertible note discount, Novellus assumed notes - other expense, net			762				859	
Gain on sale of investment - other expense, net			(4,813)			-	
Net tax benefit on non-GAAP items			(6,404)			(11,646)
Net tax benefit on successful resolution of certain tax matters			(1,313)			(2,286)
Tax expense associated with legal-entity integration			-				137	
Non-GAAP net income		\$	188,745			\$	139,227	
Non-GAAP net income per diluted share		\$	1.10			\$	0.81	
Number of shares used for diluted per share calculation			171,757				171,363	

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Reconciliation of U.S. GAAP Gross Margin, Operating Expenses and Operating Income to Non-GAAP Gross Margin, Operating Expenses and Operating Income

(in thousands, except percentages)								
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(unaudited)

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Three Months Ended

Three Months Ended

			December 29,				September 29,	
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2013

2013

U.S. GAAP gross margin		\$	487,789			\$	431,858	
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Pre-tax non-GAAP items:

Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold			21,491				21,480	
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Acquisition-related inventory fair value impact - cost of goods sold			1,225				2,047	
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Integration costs - cost of goods sold			264				1,324	
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Non-GAAP gross margin		\$	510,769			\$	456,709	
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U.S. GAAP gross margin as a percentage of revenue			43.7	%			42.5	%
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Non-GAAP gross margin as a percentage of revenue			45.8	%			45.0	%
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U.S. GAAP operating expenses		\$	323,315			\$	326,450	
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Pre-tax non-GAAP items:

Integration costs - operating expenses			(2,785)			(8,063)
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Amortization related to intangible assets acquired in Novellus transaction - operating expenses			(16,953)			(16,947)
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Restructuring charges - operating expenses			-				(1,705)
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Costs associated with rationalization of certain product configurations - operating expenses			(846)			(844)
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Impairment of long lived asset - operating expenses			(628)			(7,004)
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Non-GAAP operating expenses		\$	302,103			\$	291,887	
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Non-GAAP operating income		\$	208,666			\$	164,822	
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Non-GAAP operating margin as a percent of revenue			18.7	%			16.2	%
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