

Lam Research Corporation Reports Financial Results for the Quarter Ended December 29, 2013

FREMONT, CA -- (Marketwired) -- 01/29/14 -- Lam Research Corp. (NASDAQ: LRCX) today announced financial results for the quarter ended December 29, 2013.

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

Lam Research Corporation

Financial Highlights for the Quarters Ended December 29, 2013 and September 29, 2013

(in thousands, except per share data and percentages)

U.S. GAAP

	December 2013		September 2013		Change Q/Q	
Revenue	\$	1,116,061	\$	1,015,059	+10	%
Gross margin as percentage of revenue		43.7 %		42.5 %	+120	bps
Operating margin as percentage of revenue		14.7 %		10.4 %	+430	bps
Diluted EPS	\$	0.87	\$	0.50	+74	%

Non-GAAP

	December 2013		September 2013		Change Q/Q	
Revenue	\$	1,116,061	\$	1,015,059	+10	%
Gross margin as percentage of revenue		45.8 %		45.0 %	+80	bps
Operating margin as percentage of revenue		18.7 %		16.2 %	+250	bps
Diluted EPS	\$	1.10	\$	0.81	+36	%

GAAP Financial Results

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 Financial Results

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."

Balance Sheet and Cash Flow Results

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.

Geographic Distribution

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, 2013 (unaudited)	September 29, 2013 (unaudited)	June 30, 2013 (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

Restricted cash and investments		166,395		166,385		166,536
Goodwill and intangible assets		2,453,066		2,484,900		2,526,541
Other assets		141,108		149,963		159,499
Total assets	\$	7,555,798	\$	7,290,345	\$	7,250,315

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	\$	1,522,572	\$	1,402,890	\$	1,404,475
Long-term debt, convertible notes, and capital leases	\$	803,276	\$	796,373	\$	789,256
Income taxes payable		248,996		248,462		246,479
Other long-term liabilities		129,710		129,306		134,313
Total liabilities		2,704,554		2,577,031		2,574,523
Senior convertible notes		185,154		186,042		186,920
Stockholders' equity (2)		4,666,090		4,527,272		4,488,872
Total liabilities and stockholders' equity	\$	7,555,798	\$	7,290,345	\$	7,250,315

(1) Derived from audited financial statements

(2) Common shares issued and outstanding were 162,169 shares as of December 29, 2013, 162,217 shares as of September 29, 2013 and 162,873 shares as of June 30, 2013.

LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended				Six Months Ended			
	December 29,		September 29,		December 23,		December 29,	
	2013		2013		2012		2013	
CASH FLOWS FROM OPERATING ACTIVITIES:								
Net income	\$	148,992	\$	85,506	\$	6,408	\$	234,498
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation and amortization		73,552		74,331		78,388		147,883
Deferred income taxes		12,457		-		(7,320)		12,457
Impairment of long-lived asset		628		7,004		-		7,632

	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		

Non-GAAP Financial Summary

(in thousands, except percentages and per share data)

(unaudited)

	Three Months Ended			Three Months Ended		
	December 29,			September 29,		
	2013			2013		
Revenue	\$	1,116,061		\$	1,015,059	
Gross margin	\$	510,769		\$	456,709	
Gross margin as percentage of revenue		45.8	%		45.0	%
Operating expenses	\$	302,103		\$	291,887	
Operating income	\$	208,666		\$	164,882	
Operating margin as a percentage of revenue		18.7	%		16.2	%
Net income	\$	188,745		\$	139,227	
Net income per diluted share	\$	1.10		\$	0.81	
Shares used in per share calculation - diluted		171,757			171,363	

Reconciliation of U.S. GAAP Net Income to Non-GAAP Net Income

(in thousands, except per share data)

(unaudited)

	Three Months Ended			Three Months Ended		
	December 29,			September 29,		
	2013			2013		
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	

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)

(unaudited)

		Three Months Ended				Three Months Ended	
		December 29,				September 29,	
		2013				2013	
U.S. GAAP gross margin	\$	487,789			\$	431,858	
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	
Non-GAAP gross margin	\$	510,769			\$	456,709	
U.S. GAAP gross margin as a percentage of revenue		43.7	%			42.5	%
Non-GAAP gross margin as a percentage of revenue		45.8	%			45.0	%
U.S. GAAP operating expenses	\$	323,315			\$	326,450	
Pre-tax non-GAAP items:							
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)
Non-GAAP operating expenses	\$	302,103			\$	291,887	
Non-GAAP operating income	\$	208,666			\$	164,822	
Non-GAAP operating margin as a percent of revenue		18.7	%			16.2	%

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