

LAM RESEARCH CORP

FORM 8-K (Current report filing)

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|-------------|---|
| Address | 4650 CUSHING BLVD FREMONT, CA 94538 |
| Telephone | 5106590200 |
| CIK | 0000707549 |
| Symbol | LRCX |
| SIC Code | 3559 - Special Industry Machinery, Not Elsewhere Classified |
| Industry | Semiconductor Equipment & Testing |
| Sector | Technology |
| Fiscal Year | 06/25 |

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

**Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): July 26, 2017

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

0-12933
(Commission
File Number)

94-2634797
(IRS 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)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Item 2.02. Results of Operations and Financial Condition

On July 26, 2017, Lam Research Corporation (the “Company”) issued a press release announcing its financial results for the fiscal quarter ended June 25, 2017, the text of which is attached hereto as Exhibit 99.1.

The information in this Current Report on Form 8-K, including the exhibit, is furnished pursuant to Item 2.02 and shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section. Furthermore, the information in this Current Report on Form 8-K, including the exhibit, shall not be deemed to be incorporated by reference into the filings of the Company under the Securities Act of 1933, as amended, or the Exchange Act.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

99.1 Press Release dated July 26, 2017 announcing financial results for the fiscal quarter ended June 25, 2017

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 26, 2017

LAM RESEARCH CORPORATION

(Registrant)

/s/ Douglas R. Bettinger

Douglas R. Bettinger

**Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)**

EXHIBIT INDEX

99.1 Press Release dated July 26, 2017 announcing financial results for the fiscal quarter ended June 25, 2017

FOR IMMEDIATE RELEASE**Lam Research Corporation Contacts:**

Satya Kumar, Investor Relations, phone: 510-572-1615, e-mail: investor.relations@lamresearch.com

Lam Research Corporation Reports Financial Results for the Quarter Ended June 25, 2017

FREMONT, Calif., July 26, 2017 - Lam Research Corp. (Nasdaq: LRCX) today announced financial results for the quarter ended June 25, 2017 (the "June 2017 quarter").

Highlights for the June 2017 quarter were as follows:

- Shipments of \$2.54 billion and revenue of \$2.34 billion .
- GAAP gross margin of 45.6% , GAAP operating margin of 25.9% , and GAAP diluted EPS of \$2.82 .
- Non-GAAP gross margin of 46.5% , non-GAAP operating margin of 27.7% , and non-GAAP diluted EPS of \$3.11 .

**Key Financial Data for the Quarters Ended June 25, 2017 and March 26, 2017
(in thousands, except per-share data, percentages, and basis points)**

| U.S. GAAP | | | | |
|---|--------------|--------------|------------|--|
| | June 2017 | March 2017 | Change Q/Q | |
| Shipments | \$ 2,542,664 | \$ 2,412,656 | + 5% | |
| Revenue | \$ 2,344,907 | \$ 2,153,995 | + 9% | |
| Gross margin as percentage of revenue | 45.6% | 45.1% | + 50 bps | |
| Operating margin as percentage of revenue | 25.9% | 25.0% | + 90 bps | |
| Diluted EPS | \$ 2.82 | \$ 3.10 | - 9% | |
| Non-GAAP | | | | |
| | June 2017 | March 2017 | Change Q/Q | |
| Shipments | \$ 2,542,664 | \$ 2,412,656 | + 5% | |
| Revenue | \$ 2,344,907 | \$ 2,153,995 | + 9% | |
| Gross margin as percentage of revenue | 46.5% | 46.1% | + 40 bps | |
| Operating margin as percentage of revenue | 27.7% | 26.9% | + 80 bps | |
| Diluted EPS | \$ 3.11 | \$ 2.80 | + 11% | |

U.S. GAAP Financial Results

For the June 2017 quarter, revenue was \$2,345 million , gross margin was \$1,069 million , or 45.6% of revenue, operating expenses were \$461 million , operating margin was 25.9% of revenue, and net income was \$526 million , or \$2.82 per diluted share on a GAAP basis. This compares to revenue of \$2,154 million , gross margin of \$971 million , or 45.1% of revenue, operating expenses of \$433 million , operating margin of 25.0% of revenue, and net income of \$575 million , or \$3.10 per diluted share, for the quarter ended March 26, 2017 (the " March 2017 quarter").

Non-GAAP Financial Results

For the June 2017 quarter, non-GAAP gross margin was \$1,090 million or 46.5% of revenue, non-GAAP operating expenses were \$440 million , non-GAAP operating margin was 27.7% of revenue, and non-GAAP net income was \$566 million , or \$3.11 per diluted share. This compares to non-GAAP gross margin of \$993 million or 46.1% of revenue, non-GAAP operating expenses of \$414 million , non-GAAP operating margin of 26.9% of revenue, and non-GAAP net income of \$508 million , or \$2.80 per diluted share for the March 2017 quarter.

"Lam delivered another record quarter for shipments, revenue and non-GAAP operating income in June, capping a record fiscal 2017 highlighted by over eight and a half billion dollars in shipments and nearly ten dollars in non-GAAP diluted earnings per share," said Martin Anstice, Lam Research's President and Chief Executive Officer. "Demand trends in our key end markets have improved, and we are on track once again to outperform overall industry growth in calendar 2017. Longer-term, our increased strategic relevance enabling a new generation of technology innovations, combined with broad competitive strength, deliver a compelling value creation opportunity for Lam."

Lam Announces Financial Results for the June 2017 Quarter

Balance Sheet and Cash Flow Results

Cash and cash equivalents, short-term investments, and restricted cash and investments balances increased to \$6.3 billion at the end of the June 2017 quarter compared to \$6.1 billion at the end of the March 2017 quarter. This increase was primarily the result of approximately \$729 million of cash generated in operating activities, partially offset by \$526 million of share repurchases, including net share settlement on employee stock-based compensation.

Deferred revenue at the end of the June 2017 quarter increased to \$966 million as compared to \$842 million at the end of the March 2017 quarter. Deferred profit at the end of the June 2017 quarter increased to \$608 million as compared to \$527 million at the end of the March 2017 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 estimated future revenue from shipments to Japanese customers was approximately \$397 million as of June 25, 2017 and \$260 million as of March 26, 2017.

Geographic Distribution

The geographic distribution of shipments and revenue during the June 2017 quarter is shown in the following table:

| <u>Region</u> | <u>Shipments</u> | <u>Revenue</u> |
|----------------|------------------|----------------|
| Korea | 36% | 38% |
| Japan | 21% | 17% |
| China | 16% | 16% |
| Taiwan | 14% | 16% |
| United States | 8% | 9% |
| Europe | 3% | 3% |
| Southeast Asia | 2% | 1% |

Outlook

For the September 2017 quarter, Lam is providing the following guidance:

| | <u>U.S. GAAP</u> | | | <u>Reconciling Items</u> | <u>Non-GAAP</u> | | |
|------------------------------|------------------|-----|---------------|------------------------------|-----------------|-----|---------------|
| Shipments | \$2.35 Billion | +/- | \$100 Million | — | \$2.35 Billion | +/- | \$100 Million |
| Revenue | \$2.45 Billion | +/- | \$100 Million | — | \$2.45 Billion | +/- | \$100 Million |
| Gross margin | 45.6% | +/- | 1% | \$ 21 Million | 46.5% | +/- | 1% |
| Operating margin | 26.5% | +/- | 1% | \$ 37 Million | 28.0% | +/- | 1% |
| Net income per diluted share | \$2.98 | +/- | \$0.12 | \$ 37 Million | \$3.25 | +/- | \$0.12 |
| Diluted share count | 187 Million | | | 4 Million | 183 million | | |

The information provided above is only an estimate of what the Company believes is realizable as of the date of this release, and does not incorporate the potential impact of any business combinations, asset acquisitions, divestitures, balance sheet valuation adjustments, financing arrangements, other investments, or other significant transactions that may be completed after the date of this release. U.S. GAAP to non-GAAP reconciling items provided include only those items that are known and can be estimated as of the date of this release. Actual results will vary from this model and the variations may be material. Reconciling items included above are as follows:

- Gross Margin - amortization related to intangible assets acquired in the Novellus transaction, \$21 million.
- Operating margin - amortization related to intangible assets acquired in the Novellus transaction, \$37 million.
- Earnings per share - amortization related to intangible assets acquired in the Novellus transaction, \$37 million; amortization of note discounts, \$6 million; and associated tax benefit for non-GAAP items (\$6) million; totaling \$37 million.
- Diluted share count - impact of a note hedge issued contemporaneously with the convertible notes due 2018, 4 million shares.

Lam Announces Financial Results for the June 2017 Quarter

Use of Non-GAAP Financial Results

In addition to U.S. GAAP results, this press release also contains non-GAAP financial results. The Company's non-GAAP results for both the June 2017 and March 2017 quarters exclude amortization related to intangible assets acquired in the Novellus transaction, costs associated with business process reengineering, the amortization of notes discounts, tax benefit of non-GAAP items, and income tax benefit on the conclusion of tax matters related to a prior business combination.

Management uses non-GAAP gross margin, operating expense, operating income, operating margin, net income, and net income per diluted share to evaluate the Company's operating and financial results. The Company believes the presentation of non-GAAP results is useful to investors for analyzing business trends and comparing performance to prior periods, along with enhancing investors' ability to view the Company's results from management's perspective. Tables presenting reconciliations of non-GAAP results to U.S. GAAP results are included at the end of this press release and on the Company's website at <http://investor.lamresearch.com>.

Caution Regarding Forward-Looking Statements

Statements made in this press release that are not of historical fact are forward-looking statements and are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, but are not limited to; the estimated future revenue from shipments to Japanese customers; our revenue, industry, performance and general outlooks, and their drivers; our future strategic relevance to customers; the potential for value creation; technology demand trends; the legal and business factors that may affect our future tax rate; and our guidance for shipments, revenue, gross margin, operating margin, net income or earnings per diluted share, and diluted share count. Some factors that may affect these forward-looking statements include: business conditions in the consumer electronics industry, the semiconductor industry and the overall economy may deteriorate or change; and the actions of our customers and competitors may be inconsistent with our expectations, as well as the other risks and uncertainties that are described in the documents filed or furnished by us with the Securities and Exchange Commission, including specifically the Risk Factors described in our annual report on Form 10-K for the fiscal year ended June 26, 2016 and quarterly reports on Form 10-Q for the fiscal quarters ended September 25, 2016, December 25, 2016 and March 26, 2017. These uncertainties and changes could materially affect the forward looking statements and cause actual results to vary from expectations in a material way. The Company undertakes no obligation to update the information or statements made in this release.

About Lam Research

Lam Research Corp. is a global supplier of innovative wafer fabrication equipment and services to the semiconductor industry. As a trusted, collaborative partner to the world's leading semiconductor companies, we combine superior systems engineering capability, technology leadership, and unwavering commitment to customer success to accelerate innovation through enhanced device performance. In fact, today, nearly every advanced chip is built with Lam technology. Lam Research (Nasdaq: LRCX) is a FORTUNE 500® company headquartered in Fremont, Calif., with operations around the globe. Learn more at www.lamresearch.com. (LRCX-F)

Consolidated Financial Tables Follow.

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

| | Three Months Ended | | | Twelve Months Ended | |
|--|--------------------|-------------------|-------------------|---------------------|-------------------|
| | June 25, 2017 | March 26, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (1) |
| Revenue | \$ 2,344,907 | \$ 2,153,995 | \$ 1,546,261 | \$ 8,013,620 | \$ 5,885,893 |
| Cost of goods sold | 1,275,946 | 1,182,591 | 847,477 | 4,410,261 | 3,266,971 |
| Gross margin | 1,068,961 | 971,404 | 698,784 | 3,603,359 | 2,618,922 |
| Gross margin as a percent of revenue | 45.6% | 45.1% | 45.2% | 45.0% | 44.5% |
| Research and development | 285,712 | 265,986 | 237,255 | 1,033,742 | 913,712 |
| Selling, general and administrative | 175,310 | 167,000 | 152,288 | 667,485 | 630,954 |
| Total operating expenses | 461,022 | 432,986 | 389,543 | 1,701,227 | 1,544,666 |
| Operating income | 607,939 | 538,418 | 309,241 | 1,902,132 | 1,074,256 |
| Operating income as a percent of revenue | 25.9% | 25.0% | 20.0% | 23.7% | 18.3% |
| Other expense, net | (4,444) | (7,838) | (27,249) | (90,459) | (114,139) |
| Income before income taxes | 603,495 | 530,580 | 281,992 | 1,811,673 | 960,117 |
| Income tax (expense) benefit | (77,071) | 44,133 | (23,053) | (113,910) | (46,068) |
| Net income | <u>\$ 526,424</u> | <u>\$ 574,713</u> | <u>\$ 258,939</u> | <u>\$ 1,697,763</u> | <u>\$ 914,049</u> |
| Net income per share: | | | | | |
| Basic | <u>\$ 3.25</u> | <u>\$ 3.52</u> | <u>\$ 1.62</u> | <u>\$ 10.47</u> | <u>\$ 5.75</u> |
| Diluted | <u>\$ 2.82</u> | <u>\$ 3.10</u> | <u>\$ 1.46</u> | <u>\$ 9.24</u> | <u>\$ 5.22</u> |
| Number of shares used in per share calculations: | | | | | |
| Basic | <u>162,213</u> | <u>163,408</u> | <u>159,862</u> | <u>162,222</u> | <u>158,919</u> |
| Diluted | <u>186,427</u> | <u>185,094</u> | <u>177,649</u> | <u>183,770</u> | <u>175,159</u> |
| Cash dividend declared per common share | <u>\$ 0.45</u> | <u>\$ 0.45</u> | <u>\$ 0.30</u> | <u>\$ 1.65</u> | <u>\$ 1.20</u> |

(1) Derived from audited financial statements.

LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | <u>June 25, 2017</u> | <u>March 26, 2017</u> | <u>June 26, 2016</u> |
|---|--------------------------|---------------------------|--------------------------|
| | (unaudited) | (unaudited) | (1) |
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,377,534 | \$ 2,128,570 | \$ 5,039,322 |
| Investments | 3,663,628 | 3,755,036 | 1,788,612 |
| Accounts receivable, net | 1,673,398 | 1,636,090 | 1,262,145 |
| Inventories | 1,232,916 | 1,133,196 | 971,911 |
| Other current assets | 195,022 | 223,056 | 151,160 (2) |
| Total current assets | <u>9,142,498</u> | <u>8,875,948</u> | <u>9,213,150</u> |
| Property and equipment, net | 685,595 | 675,707 | 639,608 |
| Restricted cash and investments | 256,205 | 256,157 | 250,421 |
| Goodwill and intangible assets | 1,796,668 | 1,835,150 | 1,951,197 |
| Other assets | 241,799 | 232,224 | 209,939 (2) |
| Total assets | <u>\$ 12,122,765</u> | <u>\$ 11,875,186</u> | <u>\$ 12,264,315</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current portion of convertible notes and capital leases | \$ 908,439 | \$ 905,288 | \$ 947,733 (2) |
| Other current liabilities | 2,041,676 | 1,851,451 | 1,470,308 |
| Total current liabilities | <u>2,950,115</u> | <u>2,756,739</u> | <u>2,418,041</u> |
| Long-term debt and capital leases | 1,784,974 | 1,777,297 | 3,378,129 (2) |
| Income taxes payable | 120,178 | 137,173 | 231,514 |
| Other long-term liabilities | 280,186 | 282,615 | 134,562 |
| Total liabilities | <u>5,135,453</u> | <u>4,953,824</u> | <u>6,162,246</u> |
| Temporary equity, convertible notes | 169,861 | 175,108 | 207,552 |
| Stockholders' equity (3) | 6,817,451 | 6,746,254 | 5,894,517 |
| Total liabilities and stockholders' equity | <u>\$ 12,122,765</u> | <u>\$ 11,875,186</u> | <u>\$ 12,264,315</u> |

(1) Derived from audited financial statements.

(2) Adjusted for effects of retrospective implementation of ASU 2015-3, regarding the simplification of the presentation of bond issuance costs, which requires that bond issuance costs related to a recognized liability be presented on the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts.

(3) Common shares issued and outstanding were 161,723 as of June 25, 2017, 163,969 as of March 26, 2017 and 160,201 as of June 26, 2016.

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

| | Three Months Ended | | | Twelve Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | June 25, 2017 | March 26, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (1) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income | \$ 526,424 | \$ 574,713 | \$ 258,939 | \$ 1,697,763 | \$ 914,049 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 79,036 | 76,242 | 74,976 | 306,905 | 291,028 |
| Deferred income taxes | 35,069 | 27,619 | (46,708) | 104,936 | (49,003) |
| Equity-based compensation expense | 43,802 | 35,323 | 39,288 | 149,975 | 142,348 |
| (Gain) Loss on early extinguishment of debt | (73) | — | — | 36,252 | — |
| Income tax benefit (expense) on equity-based compensation plans | 38,747 | — | (8,048) | 38,747 | (1,023) |
| Excess tax (benefit) expense on equity-based compensation plans | (38,635) | — | 9,035 | (38,635) | 1,020 |
| Amortization of note discounts and issuance costs | 6,114 | 6,136 | 14,584 | 25,282 | 70,522 |
| Gain on sale of assets, net | (163) | — | (15,223) | (163) | (15,223) |
| Other, net | 8,275 | (4,738) | 17,929 | 19,052 | 48,788 |
| Changes in operating assets and liabilities | 30,676 | (292,607) | 79,052 | (310,832) | (52,229) |
| Net cash provided by operating activities | <u>729,272</u> | <u>422,688</u> | <u>423,824</u> | <u>2,029,282</u> | <u>1,350,277</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures and intangible assets | (34,811) | (44,116) | (51,726) | (157,419) | (175,330) |
| Net sale (purchase) of available-for-sale securities | 93,858 | (418,566) | 605,891 | (1,883,886) | 798,828 |
| Proceeds from sale of assets | 290 | — | 79,730 | 1,291 | 79,730 |
| Transfers of restricted cash and investments | (48) | (982) | (112,381) | (5,784) | (112,381) |
| Other, net | (187) | (3,586) | — | (12,815) | 1,636 |
| Net cash provided by (used for) investing activities | <u>59,102</u> | <u>(467,250)</u> | <u>521,514</u> | <u>(2,058,613)</u> | <u>592,483</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Principal payments on long-term debt and capital lease obligations | (2,445) | (69,227) | (450,624) | (1,688,313) | (451,497) |
| Proceeds from issuance of long-term debt, net of issuance costs | — | — | 2,374,220 | — | 2,338,144 |
| Excess tax benefit (expense) on equity-based compensation plans | 38,635 | — | (9,035) | 38,635 | (1,020) |
| Treasury stock purchases | (525,778) | (216,373) | (27,114) | (811,672) | (158,389) |
| Dividends paid | (73,709) | (73,337) | (47,308) | (243,495) | (190,402) |
| Re-issuance of treasury stock related to employee stock purchase plan | 23,120 | 17,223 | 20,360 | 59,663 | 55,992 |
| Proceeds from issuance of common stock | 369 | 7,964 | 1,547 | 12,913 | 3,405 |
| Other, net | (1) | (70) | (159) | (125) | (488) |
| Net cash (used for) provided by financing activities | <u>(539,809)</u> | <u>(333,820)</u> | <u>1,861,887</u> | <u>(2,632,394)</u> | <u>1,595,745</u> |
| Effect of exchange rate changes on cash and cash equivalents | 399 | 2,992 | 76 | (63) | (722) |
| Net increase (decrease) in cash and cash equivalents | 248,964 | (375,390) | 2,807,301 | (2,661,788) | 3,537,783 |
| Cash and cash equivalents at beginning of period | 2,128,570 | 2,503,960 | 2,232,021 | 5,039,322 | 1,501,539 |
| Cash and cash equivalents at end of period | <u>\$ 2,377,534</u> | <u>\$ 2,128,570</u> | <u>\$ 5,039,322</u> | <u>\$ 2,377,534</u> | <u>\$ 5,039,322</u> |

(1) Derived from audited financial statements.

Non-GAAP Financial Summary
(in thousands, except percentages and per share data)
(unaudited)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | June 25, 2017 | March 26, 2017 |
| Revenue | \$ 2,344,907 | \$ 2,153,995 |
| Gross margin | \$ 1,090,211 | \$ 992,654 |
| Gross margin as percentage of revenue | 46.5% | 46.1% |
| Operating expenses | \$ 440,126 | \$ 414,229 |
| Operating income | \$ 650,085 | \$ 578,425 |
| Operating margin as a percentage of revenue | 27.7% | 26.9% |
| Net income | \$ 565,518 | \$ 507,751 |
| Net income per diluted share | \$ 3.11 | \$ 2.80 |
| Shares used in per share calculation - diluted | 182,093 | 181,539 |

Reconciliation of U.S. GAAP Net Income to Non-GAAP Net Income and U.S. GAAP number of dilutive shares to Non-GAAP number of dilutive shares
(in thousands, except per share data)
(unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | June 25, 2017 | March 26, 2017 |
| U.S. GAAP net income | \$ 526,424 | \$ 574,713 |
| Pre-tax non-GAAP items: | | |
| Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold | 21,250 | 21,250 |
| Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative | 16,083 | 16,083 |
| Cost associated with business process reengineering- selling, general and administrative | 4,813 | 2,674 |
| Amortization of note discounts - other expense, net | 5,631 | 5,654 |
| Net income tax benefit on non-GAAP items | (5,697) | (6,418) |
| Income tax benefit on conclusion of certain tax matters | (2,986) | (106,205) |
| Non-GAAP net income | \$ 565,518 | \$ 507,751 |
| Non-GAAP net income per diluted share | \$ 3.11 | \$ 2.80 |
| U.S. GAAP number of shares used for per diluted share calculation | 186,427 | 185,094 |
| Effect of convertible note hedge | (4,334) | (3,555) |
| Non-GAAP number of shares used for per diluted share calculation | 182,093 | 181,539 |

Reconciliation of U.S. GAAP Net Income to Non-GAAP Net Income and U.S. GAAP number of dilutive shares to Non-GAAP number of dilutive shares
(in thousands, except per share data)
(unaudited)

| | Twelve Months Ended | |
|---|---------------------|---------------------|
| | June 25, 2017 | June 26, 2016 |
| U.S. GAAP net income | \$ 1,697,763 | \$ 914,049 |
| Pre-tax non-GAAP items: | | |
| Amortization related to intangible assets acquired in Novellus transaction - cost of goods sold | 85,000 | 85,000 |
| Product rationalization - cost of goods sold | 6,127 | — |
| Novellus acquisition-related inventory fair value impact - cost of goods sold | — | 777 |
| Restructuring charges - cost of goods sold | — | 371 |
| Restructuring charges - research and development | — | 4,355 |
| Product rationalization - research and development | 1,650 | — |
| Cost associated with campus consolidation - research and development | 3,556 | 7,763 |
| KLA-Tencor acquisition-related costs - selling, general and administrative | 9,972 | 50,985 |
| Gain on sale of assets, net associated exit costs - selling, general and administrative | — | (15,223) |
| Amortization related to intangible assets acquired in Novellus transaction -selling, general and administrative | 64,332 | 64,333 |
| Restructuring charges - selling, general and administrative | — | 4,997 |
| Costs associated with business process reengineering - selling, general and administrative | 7,487 | — |
| Litigation settlement - selling, general and administrative | 4,000 | — |
| Amortization of note discounts - other expense, net | 22,869 | 35,205 |
| Costs related to early termination of KLA-Tencor acquisition funding - other expense, net | 34,518 | — |
| Amortization of bridge loan issuance costs and other related fees - other expense, net | — | 33,843 |
| KLA-Tencor pre-acquisition funding interest expense, net - other expense, net | 20,391 | 3,821 |
| Net income tax benefit on non-GAAP items | (47,941) | (49,859) |
| Income tax benefit on conclusion of certain tax matters | (109,191) | (3,017) |
| Change to income tax benefit due to a court ruling | — | (22,812) |
| Income tax benefit related to tax extenders, primarily the research and development credit | — | (13,603) |
| Non-GAAP net income | <u>\$ 1,800,533</u> | <u>\$ 1,100,985</u> |
| Non-GAAP net income per diluted share | <u>\$ 9.98</u> | <u>\$ 6.37</u> |
| U.S. GAAP number of shares used for per diluted share calculation | 183,770 | 175,159 |
| Effect of convertible note hedge | (3,302) | (2,398) |
| Non-GAAP number of shares used for per diluted share calculation | <u>180,468</u> | <u>172,761</u> |

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 | | | |
|--|---------------------|-------------------|----------------------|-----------------------|
| | June 25, 2017 | March 26, 2017 | December 25, 2016 | September 25, 2016 |
| U.S. GAAP gross margin | \$ 1,068,961 | \$ 971,404 | \$ 846,797 | \$ 716,197 |
| Pre-tax non-GAAP items: | | | | |
| Amortization related to intangible assets acquired in Novellus transaction | 21,250 | 21,250 | 21,250 | 21,250 |
| Product rationalization | — | — | 6,127 | — |
| Non-GAAP gross margin | <u>\$ 1,090,211</u> | <u>\$ 992,654</u> | <u>\$ 874,174</u> | <u>\$ 737,447</u> |
| U.S. GAAP gross margin as a percentage of revenue | 45.6% | 45.1% | 45.0% | 43.9% |
| Non-GAAP gross margin as a percentage of revenue | 46.5% | 46.1% | 46.4% | 45.2% |
| U.S. GAAP operating expenses | \$ 461,022 | \$ 432,986 | \$ 406,969 | \$ 400,250 |
| Pre-tax non-GAAP items: | | | | |
| Amortization related to intangible assets acquired in Novellus transaction | (16,083) | (16,083) | (16,083) | (16,083) |
| Costs associated with business process reengineering | (4,813) | (2,674) | — | — |
| KLA-Tencor acquisition-related costs | — | — | — | (9,972) |
| Product rationalization | — | — | (1,650) | — |
| Cost associated with campus consolidation | — | — | (995) | (2,561) |
| Litigation settlement | — | — | (4,000) | — |
| Non-GAAP operating expenses | <u>\$ 440,126</u> | <u>\$ 414,229</u> | <u>\$ 384,241</u> | <u>\$ 371,634</u> |
| Non-GAAP operating income | <u>\$ 650,085</u> | <u>\$ 578,425</u> | <u>\$ 489,933</u> | <u>\$ 365,813</u> |
| GAAP operating margin as percent of revenue | 25.9% | 25.0% | 23.4% | 19.4% |
| Non-GAAP operating margin as a percent of revenue | 27.7% | 26.9% | 26.0% | 22.4% |