LAM RESEARCH CORP
Form 10-Q
October 23, 2018
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Company generally invoices customers at shipment and for professional services either as provided or upon meeting certain milestones. Customer invoices are generally due within?30?to?90 days after issuance. The Company?s contracts with customers typically do not include significant financing components as the period between the transfer of performance obligations and timing of payment are generally within one year.P9MP2Y172.39172.391196790000127500000Refer to Note 2 - Recent Accounting Pronouncements for more information regarding these FASB Accounting Standard Updates. 0000707549 2018-06-25 2018-09-23 0000707549 2018-10-22 0000707549 2017-06-26 2017-09-24 0000707549 2018-09-23 0000707549 2018-06-24 0000707549 2017-09-24 0000707549 2017-06-25 0000707549 us-gaap:CommonStockMember 2018-06-25 2018-09-23 0000707549 us-gaap:TreasuryStockMember 2018-06-24 0000707549 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-06-24 0000707549 us-gaap:CommonStockMember 2018-09-23 0000707549 us-gaap:CommonStockMember 2017-06-26 2017-09-24 0000707549 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-06-25 2018-09-23 0000707549 us-gaap:TreasuryStockMember 2017-09-24 0000707549 us-gaap:AccountingStandardsUpdate201616Member us-gaap:RetainedEarningsMember 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201409Member 2018-09-23 0000707549 us-gaap:AdditionalPaidInCapitalMember 2017-06-26 2017-09-24 0000707549 us-gaap:TreasuryStockMember 2017-06-26 2017-09-24 0000707549 us-gaap:RetainedEarningsMember 2018-06-24 0000707549 us-gaap:AdditionalPaidInCapitalMember 2018-06-25 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201609Member us-gaap:RetainedEarningsMember 2017-09-24 0000707549 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-06-26 2017-09-24 0000707549 us-gaap:AdditionalPaidInCapitalMember 2017-09-24 0000707549 us-gaap:RetainedEarningsMember 2017-06-26 2017-09-24 0000707549 us-gaap:CommonStockMember 2017-09-24 0000707549 us-gaap:RetainedEarningsMember 2018-06-25 2018-09-23 0000707549 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-06-25 0000707549 us-gaap:AdditionalPaidInCapitalMember 2018-09-23 0000707549 us-gaap:AdditionalPaidInCapitalMember 2017-06-25 0000707549 us-gaap:CommonStockMember 2018-06-24 0000707549 us-gaap:TreasuryStockMember 2018-06-25 2018-09-23 0000707549 us-gaap:CommonStockMember 2017-06-25 0000707549 us-gaap:AdditionalPaidInCapitalMember 2018-06-24 0000707549 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-09-24 0000707549 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201409Member us-gaap:RetainedEarningsMember 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201609Member 2017-09-24 0000707549 us-gaap:RetainedEarningsMember 2017-09-24 0000707549 us-gaap:RetainedEarningsMember 2017-06-25 0000707549 us-gaap:TreasuryStockMember 2018-09-23 0000707549 us-gaap:RetainedEarningsMember 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201616Member 2018-09-23 0000707549 us-gaap:TreasuryStockMember 2017-06-25 0000707549 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-06-25 2018-06-25 0000707549 lrcx:AccountingStandardsUpdate201802Member us-gaap:ComprehensiveIncomeMember 2018-09-23 0000707549 lrcx:AccountingStandardsUpdate201802Member us-gaap:RetainedEarningsMember 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201409Member us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-06-25 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201409Member us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-06-25 2018-09-23 0000707549 us-gaap:AccountingStandardsUpdate201409Member

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

FORM 10-Q

(Mark One)

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 23, 2018

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)

Delaware	**94-2634797**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4650 Cushing Parkway	**94538**

Fremont, California
(Address of principal executive offices) (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 x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x 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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		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. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of October 22, 2018, the Registrant had 155,182,806 shares of Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	Three Months Ended	
	September 23, 2018	**September 24, 2017**
Revenue	$2,330,691	$2,478,140
Cost of goods sold	1,272,493	1,328,797
Gross margin	1,058,198	1,149,343
Research and development	291,672	275,078
Selling, general, and administrative	174,775	181,043
Total operating expenses	466,447	456,121
Operating income	591,751	693,222
Other expense, net	(377)	(5,502)
Income before income taxes	591,374	687,720
Income tax expense	(58,014)	(97,030)
Net income	$533,360	$590,690
Net income per share:		
Basic	$3.43	$3.64
Diluted	$3.23	$3.21
Number of shares used in per share calculations:		
Basic	155,658	162,141
Diluted	165,327	183,880

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended	
	September 23, 2018	**September 24, 2017**
Net income	$533,360	$590,690
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(6,261)	7,869
Cash flow hedges:		
Net unrealized gains during the period	6,866	3,062
Net losses reclassified into earnings	1,148	2,188
	8,014	5,250
Available-for-sale investments:		
Net unrealized losses during the period	(287)	(1,727)
Net gains reclassified into earnings	(3)	(123)
	(290)	(1,850)
Defined benefit plans, net change in unrealized component	(1,743)	(2,356)
Other comprehensive (loss) income, net of tax	(280)	8,913
Comprehensive income	$533,080	$599,603

See Notes to Condensed Consolidated Financial Statements

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

	September 23, 2018 (unaudited)	June 24, 2018 (1)
ASSETS		
Cash and cash equivalents	$2,568,085	$4,512,257
Investments	1,050,863	437,338
Accounts receivable, less allowance for doubtful accounts of $5,351 as of September 23, 2018, and $5,343 as of June 24, 2018	1,846,845	2,176,936
Inventories	1,874,194	1,876,162
Prepaid expenses and other current assets	175,886	147,218
Total current assets	7,515,873	9,149,911
Property and equipment, net	951,376	902,547
Restricted cash and investments	255,924	256,301
Goodwill	1,484,873	1,484,904
Intangible assets, net	282,689	317,836
Other assets	466,842	367,979
Total assets	$10,957,577	$12,479,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$384,403	$510,983
Accrued expenses and other current liabilities	1,347,872	1,309,209
Deferred profit	542,321	720,086
Current portion of convertible notes, capital leases, and commercial paper	550,369	610,030
Total current liabilities	2,824,965	3,150,308
Long-term debt and capital leases, less current portion	1,805,091	1,806,562
Income taxes payable	845,740	851,936
Other long-term liabilities	100,144	90,629
Total liabilities	5,575,940	5,899,435
Commitments and contingencies		
Temporary equity, convertible notes	58,812	78,192
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, 153,384 shares at September 23, 2018, and 156,892 shares at June 24, 2018	153	157
Additional paid-in capital	6,195,024	6,144,425
Treasury stock, at cost; 127,500 shares at September 23, 2018, and 119,679 shares at June 24, 2018	(9,582,409)	(7,846,476)
Accumulated other comprehensive loss	(57,729)	(57,449)
Retained earnings	8,767,786	8,261,194
Total stockholders' equity	5,322,825	6,501,851
Total liabilities and stockholders' equity	$10,957,577	$12,479,478

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements
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LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands) (unaudited)

	Three Months Ended	
	September 23, 2018	**September 24, 2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$533,360	$590,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	79,805	79,142
Deferred income taxes	(83,501)	43,204
Equity-based compensation expense	50,343	41,783
Amortization of note discounts and issuance costs	1,245	4,588
Other, net	2,191	6,569
Changes in operating assets and liabilities	136,843	92,330
Net cash provided by operating activities	720,286	858,306
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(56,098)	(60,064)
Business acquisition, net of cash acquired	—	(115,613)
Purchases of available-for-sale securities	(749,829)	(1,425,407)
Sales and maturities of available-for-sale securities	137,246	1,307,633
Other, net	(3,650)	(10,600)
Net cash used for investing activities	(672,331)	(304,051)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(79,831)	(301,727)
Net repayments from issuance of commercial paper	(86)	—
Treasury stock purchases	(1,735,895)	(155,385)
Dividends paid	(174,372)	(72,738)
Proceeds from issuance of common stock	—	1,042
Other, net	(9)	4
Net cash used for financing activities	(1,990,193)	(528,804)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2,311)	3,317
Net (decrease) increase in cash, cash equivalents, and restricted cash	(1,944,549)	28,768
Cash, cash equivalents, and restricted cash at beginning of period	4,768,558	2,633,739
Cash, cash equivalents, and restricted cash at end of period	$2,824,009	$2,662,507
Schedule of non-cash transactions:		
Accrued payables for stock repurchases	162	4,350
Accrued payables for capital expenditures	36,613	34,531
Dividends payable	167,907	73,127
Transfers of inventory to property and equipment, net	25,613	11,852

Reconciliation of cash, cash equivalents, and restricted cash	**September 23, 2018**	**September 24, 2017**
Cash and cash equivalents	$2,568,085	$2,406,462
Restricted cash and investments	255,924	256,045
Total Cash, cash equivalents, and restricted cash	$2,824,009	$2,662,507

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Three Months Ended September 23, 2018						
	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at June 24, 2018	156,892	$ 157	$6,144,425	$(7,846,476)	$ (57,449)	$8,261,194	$6,501,851
Sale of common stock	32	—	—	—	—	—	—
Purchase of treasury stock	(7,808)	(8)	—	(1,735,933)	—	—	(1,735,941)
Equity-based compensation expense	—	—	50,343	—	—	—	50,343
Effect of conversion of convertible notes	1,962	2	(19,114)	—	—	—	(19,112)
Exercise of warrants	2,306	2	(10)	—	—	—	(8)
Reclassification from temporary to permanent equity	—	—	19,380	—	—	—	19,380
Adoption of ASU 2014-09[(1)]	—	—	—	—	—	139,355	139,355
Adoption of ASU 2016-16[(1)]	—	—	—	—	—	(443)	(443)
Adoption of ASU 2018-02[(1)]	—	—	—		(2,227)	2,227	—
Net income	—	—	—	—	—	533,360	533,360
Other comprehensive income	—	—	—	—	1,947	—	1,947
Cash dividends declared ($1.10 per common share)	—	—	—	—	—	(167,907)	(167,907)
Balance at September 23, 2018	153,384	$ 153	$6,195,024	$(9,582,409)	$ (57,729)	$8,767,786	$5,322,825

(1) Refer to Note 2 - Recent Accounting Pronouncements for more information regarding these FASB Accounting Standard Updates.

	Three Months Ended September 24, 2017						
	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at June 25, 2017	161,723	$ 162	$5,845,485	$(5,216,187)	$ (61,700)	$6,249,691	$6,817,451
Sale of common stock	68	—	1,042	—	—	—	1,042
Purchase of treasury stock	(1,790)	(2)	—	(159,733)	—	—	(159,735)
Equity-based compensation expense	—	—	41,783	—	—	—	41,783
Effect of conversion of convertible notes	4,236	4	(29,632)	—	—	—	(29,628)
Effect of bond hedge, cash in lieu of shares	(2,093)	(2)	6	—	—	—	4
Reclassification from temporary to permanent equity	—	—	32,865	—	—	—	32,865
Adoption of ASU 2016-09	—	—	—	—	—	40,920	40,920
Net income	—	—	—	—	—	590,690	590,690
Other comprehensive income	—	—	—	—	8,913	—	8,913
Cash dividends declared ($0.45 per common share)	—	—	—	—	—	(73,127)	(73,127)
Balance at September 24, 2017	162,144	$ 162	$5,891,549	$(5,375,920)	$ (52,787)	$6,808,174	$7,271,178

See Notes to Condensed Consolidated Financial Statements
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LAM RESEARCH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 23, 2018
(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 24, 2018, which are included in the Company's Annual Report on Form 10-K as of and for the year ended June 24, 2018 (the "2018 Form 10-K"). The Company's reports on Form 10-K, Form 10-Q and Form 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 reports on Form 10-K, Form 10-Q and Form 8-K on its corporate website at *http://investor.lamresearch.com*. The content on any website referred to in this Form 10-Q is not a part of or incorporated by reference in this Form 10-Q unless expressly noted.

The condensed consolidated financial statements include the accounts of Lam Research and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company's reporting period is a 52/53-week fiscal year. The Company's current fiscal year will end June 30, 2019 and includes 53 weeks. The quarters ended September 23, 2018 (the "September 2018 quarter") and September 24, 2017 (the "September 2017 quarter") included 13 weeks.

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted

In May 2014, the FASB released ASU 2014-09, "Revenue from Contracts with Customers," to supersede nearly all existing revenue recognition guidance under GAAP. The FASB issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016 within ASU 2015–14, ASU 2016–08, ASU 2016–10, ASU 2016–12 and ASU 2016–20, respectively; all of which in combination with ASU 2014-09 were codified as Accounting Standard Codification Topic 606 ("ASC 606"). The core principle of the standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The Company adopted ASC 606 on the first day of the current fiscal year, June 25, 2018, under the modified retrospective approach, applying the amendments to prospective reporting periods. Results for reporting periods beginning on or after June 25, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under ASC 605. In conjunction with the adoption of ASC 606, the Company's revenue recognition policy has been amended, refer to Note 3 - Revenue for a description of the amendments.

The cumulative effect of the changes made to the Company's Condensed Consolidated Balance Sheet as of June 25, 2018 for the adoption of ASC 606 to all contracts with customers that were not completed as of June 24, 2018 was recorded as an adjustment to retained earnings as of the adoption date as follows:

	June 24, 2018		June 25, 2018
	As reported	Adjustments	As Adjusted
	(In thousands)		
Total assets	$12,479,478	$12,955	$12,492,433
Deferred profit	$720,086	$(160,695)	$559,391
Total liabilities	$5,899,435	$(126,400)	$5,773,035
Stockholders' equity	$6,501,851	$139,355	$6,641,206

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Upon adoption, the Company recorded a cumulative effect adjustment of $139.4 million, net of tax adjustment of $21.0 million, which increased the June 25, 2018 opening retained earnings balance on the Condensed Consolidated Balance Sheet, primarily as a result of changes in the timing of recognition of system sales. Under ASC 606, the Company recognizes revenue from sales of systems when the Company determines that control has passed to the customer which is generally (1) for products that have been demonstrated to meet product specifications prior to shipment upon shipment or delivery; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized upon completion of installation and receipt of customer acceptance; (3) for transactions where legal title does not pass upon shipment or delivery and the Company does not have a right to payment, revenue is recognized when legal title passes to the customer and the Company has a right to payment, which is generally at customer acceptance.

The impact of adoption of ASC 606 on the Company's Condensed Consolidated Statement of Operations and Condensed Consolidated Balance Sheet was as follows:

	Three months ended September 23, 2018		
	As Reported	**Without adoption of ASC 606**	**Effect of Change Higher/(Lower)**
	(In thousands)		
Revenue	$2,330,691	$2,082,397	$ 248,294
Cost of goods sold	$1,272,493	$1,166,858	$ 105,635

	September 23, 2018		
	As Reported	**Without adoption of ASC 606**	**Effect of Change Higher/(Lower)**
	(In thousands)		
Deferred profit	$542,321	$824,737	$ (282,416)
Retained earnings	$8,767,786	$8,485,370	$ 282,416

Except as disclosed above, the adoption of ASC 606 did not have a significant impact on the Company’s Condensed Consolidated Statement of Operations for the three months ended September 23, 2018.

In January 2016, the FASB released ASU 2016-01, “Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Financial Liabilities.” The FASB issued a subsequent amendment to the initial guidance in February 2018 within ASU 2018-03. These amendments change the accounting for and financial statement presentation of equity investments, other than those accounted for under the equity method of accounting or those that result in consolidation of the investee. The amendments provide clarity on the measurement methodology to be used for the required disclosure of fair value of financial instruments measured at amortized cost on the balance sheet and clarifies that an entity should evaluate the need for a valuation allowance on deferred tax assets related to available-for-sale securities in combination with the entity’s other deferred tax assets, among other changes. The Company’s adoption of this standard in the first quarter of fiscal year 2019 did not have a material impact on its Condensed Consolidated Financial Statements.

In August 2016, the FASB released ASU 2016-15, “Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments.” The amendment provides and clarifies guidance on the classification of certain cash receipts and cash payments in the statement of cash flows to eliminate diversity in practice. The Company adopted this standard update in the first quarter of fiscal year 2019 using a retrospective transition method. The Company’s adoption of this standard did not have a material impact on its Condensed Consolidated Financial Statements.

In October 2016, the FASB released ASU 2016-16, “Income Tax – Intra-Entity Transfers of Assets Other than Inventory.” This standard update improves the accounting for the income tax consequences of intra-entity transfers of

assets other than inventory. The Company adopted this standard in the first quarter of fiscal year 2019 using a modified-retrospective approach through a cumulative-effect adjustment directly to retained earnings. The Company's adoption of this standard resulted in a $0.4 million decrease to retained earnings and a corresponding $0.4 million increase to other assets on its Condensed Consolidated Financial Statements.

In November 2016, the FASB released ASU 2016-18, "Statement of Cash Flows – Restricted Cash." This standard update requires that restricted cash and restricted cash equivalents be included in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. The Company adopted this standard

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in the first quarter of fiscal year 2019, using a retrospective transition method to each period presented. The adoption of this standard did not have a material impact on its Condensed Consolidated Financial Statements.

In February 2018, the FASB released ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This standard update addresses a specific consequence of the Tax Cuts and Jobs Act (“U.S Tax Reform”) and allows a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from U.S. tax reform. Consequently, the update eliminates the stranded tax effects that were created as a result of the historical U.S. federal corporate income tax rate to the newly enacted U.S. federal corporate income tax rate. The Company adopted this standard in the first quarter of fiscal year 2019 using a modified-retrospective approach through a cumulative-effect adjustment directly to retained earnings. The adoption of this standard resulted in a $2.2 million increase to retained earnings, with a corresponding $2.2 million decrease to other comprehensive income.

In August 2018, the Securities and Exchange Commission (“SEC”) adopted amendments to eliminate, integrate, update or modify certain of its disclosure requirements. The amendments are part of the SEC’s efforts to improve disclosure effectiveness and were focused on eliminating disclosure requirements that have become redundant, duplicative, overlapping, outdated, or superseded. The Company adopted these amendments in the first quarter of fiscal Year 2019 and as a result the Company has included a Condensed Consolidated Statement of Stockholders’ Equity to this quarterly report on Form 10-Q. The Company expects that the Company’s 2019 annual report on Form 10-K will omit a number of disclosures previously required in Part II. Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, as well as other minor changes.

Updates Not Yet Effective

In January 2016, the FASB released ASU 2016-02, “Leases.” The FASB issued a subsequent amendment to the initial guidance in January 2018 within ASU 2018-01. The core principle of the standard requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. The amendment offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Company is required to adopt these standards starting in the first quarter of fiscal year 2020 using a modified-retrospective approach on the earliest period presented. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements”, which provides companies an optional adoption method to ASU 2016-02 whereby a company does not have to adjust comparative period financial statements for the new standard. The Company currently believes the most significant impact upon adoption will be the recognition of right-of-use assets and lease liabilities on the Company's Condensed Consolidated Balance Sheets for those leases currently classified as operating leases. As part of the Company’s assessment and implementation plan, the Company is evaluating and implementing changes to its procedures and controls.

In June 2016, the FASB released ASU 2016-13, “Financial Instruments – Credit Losses.” The amendment revises the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses on financial instruments, including but not limited to, available for sale debt securities and accounts receivable. The Company is required to adopt this standard starting in the first quarter of fiscal year 2021 using a modified-retrospective approach. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its Condensed Consolidated Financial Statements.

The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process, (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Company satisfies a performance obligation, as further described below.

Identify the contract with a customer. The Company generally considers documentation of terms with an approved purchase order as a customer contract provided that collection is considered probable, which is assessed based on the creditworthiness of the customer as determined by credit checks, payment histories, and/or other circumstances.

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Identify the performance obligations in the contract. Performance obligations include sales of systems, spare parts, and services; as well as, installation and training services included in customer contracts, both of which have been deemed immaterial in the context of the contract.

Determine the transaction price. The transaction price for the Company's contracts with its customers consists of both fixed and variable consideration provided it is probable that a significant reversal of revenue will not occur when the uncertainty related to variable consideration is resolved. Fixed consideration includes amounts to be contractually billed to the customer while variable consideration includes estimates for discounts and credits for future usage which are based on contractual terms outlined in volume purchase agreements and other factors known at the time. The Company generally invoices customers at shipment and for professional services either as provided or upon meeting certain milestones. Customer invoices are generally due within 30 to 90 days after issuance. The Company's contracts with customers typically do not include significant financing components as the period between the transfer of performance obligations and timing of payment are generally within one year.

Allocate the transaction price to the performance obligations in the contract. For contracts that contain multiple performance obligations, the Company allocates the transaction price to the performance obligations on a relative standalone selling price basis. Standalone selling prices are based on multiple factors including, but not limited to historical discounting trends for products and services and pricing practices in different geographies.

Recognize revenue when or as the Company satisfies a performance obligation. Revenue for systems and spares are recognized at a point in time, which is generally upon shipment or delivery. Revenue from services is recognized over time as services are completed or ratably over the contractual period of generally one year or less.

Deferred Revenue

Revenue of $261.0 million included in deferred revenue at June 25, 2018 was recognized during the three months ended September 23, 2018.

The following table summarizes the transaction price for contracts that have not yet been recognized as revenue as of September 23, 2018 and when the Company expects to recognize the amounts as revenue:

	Less than 1 Year	1-3 Years	More than 3 Years	Total
	(In thousands)			
Deferred revenue	$555,351	$70,964[1]	$ —	$626,315

(1) This amount is reflected in Deferred profit, within current liabilities, on the Company's Condensed Consolidated Balance Sheets, as the customer can demand performance upon this liability at any time.

Disaggregation of Revenue

The Company operates in one reportable business segment: manufacturing and servicing of wafer processing semiconductor manufacturing equipment. The Company's material operating segments qualify for aggregation due to their customer base and similarities in economic characteristics, nature of products and services, and processes for procurement, manufacturing, and distribution.

The Company operates in seven geographic regions: United States, China, Europe, Japan, Korea, Southeast Asia, and Taiwan. For geographical reporting, revenue is attributed to the geographic location in which the customers' facilities are located. The Company serves three primary markets: memory, foundry, logic/integrated device manufacturing.

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The following table presents the Company's revenues disaggregated by geographic region:

	Three Months Ended	
	September 23, 2018	September 24, 2017
	(In thousands)	
Japan	$670,040	$494,423
China	593,831	337,589
Korea	379,771	941,020
Taiwan	280,050	338,730
Southeast Asia	198,135	119,762
United States	120,105	157,224
Europe	88,759	89,392
	$2,330,691	$2,478,140

The following table presents the percentages of system revenues to each of the primary markets we serve:

	Three Months Ended September 23, 2018
Memory	77 %
Foundry	17 %
Logic/integrated device manufacturing	6 %

The Lam Research Corporation 2015 Stock Incentive Plan, as amended (the "2015 Plan"), provides for the grant of non-qualified equity-based awards of the Company's Common Stock to eligible employees and non-employee directors, including stock options, restricted stock units ("RSUs"), and market-based performance RSUs ("market-based PRSUs"). An option is a right to purchase Common Stock at a set price. An RSU award is an agreement to issue a set number of shares of Common Stock at the time of vesting. The Company's market-based PRSUs contain both a market condition and a service condition. The Company's options, RSU, and market-based PRSU awards typically vest over a period of three years. 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 (including expense related to the employee stock purchase plan) and related income tax benefit in the Condensed Consolidated Statements of Operations:

	Three Months Ended	
	September 23, 2018	September 24, 2017
	(in thousands)	
Equity-based compensation expense	$50,343	$41,783
Income tax benefit recognized related to equity-based compensation expense	$8,104	$13,387

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NOTE 5 — OTHER EXPENSE, NET

The significant components of other expense, net, are as follows:

	Three Months Ended	
	September 23, 2018	September 24, 2017
	(in thousands)	
Interest income	$18,933	$20,209
Interest expense	(21,788)	(23,905)
Gains on deferred compensation plan related assets, net	5,213	3,453
Loss on extinguishment of debt	83	—
Foreign exchange gains (losses), net	51	(3,000)
Other, net	(2,869)	(2,259)
	$(377)	$(5,502)

NOTE 6 — INCOME TAX EXPENSE

On December 22, 2017, the "Tax Cuts & Jobs Act" (hereafter referred to as "U.S. tax reform") was signed into law and was effective for the Company starting in the quarter ended December 24, 2017. U.S. tax reform reduces the U.S. federal statutory tax rate from 35% to 21%, mandates payment of a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign sourced earnings. The impact on income taxes due to change in legislation is required under the authoritative guidance of Accounting Standards Codification ("ASC") 740, Income Taxes, to be recognized in the period in which the law is enacted. In conjunction, the SEC issued Staff Accounting Bulletin ("SAB") 118, which allows for the recording of provisional amounts related to U.S. tax reform and subsequent adjustments related to U.S. tax reform during an up to one-year measurement period that is similar to the measurement period used when accounting for business combinations. The Company has recorded what it believes to be reasonable estimates and the provisional activity is subject to further adjustments under SAB 118. Such adjustments were made during the September 2018 quarter as outlined below, incorporating new information into the estimates; the Company may make further adjustments as new information is made available. In addition, for significant items for which the Company could not make a reasonable estimate, no provisional activity was recorded. The Company will continue to refine the provisional balances and adjustments may be made under SAB 118 during the measurement period as a result of future changes in interpretation, information available, assumptions made by the Company and/or issuance of additional guidance; these adjustments could be material.

The Company recorded an income tax expense of $58.0 million for the three months ended September 23, 2018, which yielded an effective tax rate of approximately 9.8%.

The difference between the U.S. federal statutory tax rate of 21% and the Company's effective tax rate for the three months ended September 23, 2018 is primarily due to the impact of U.S. tax reform, outlined below, and income in lower tax jurisdictions.

The computation of the one-time transition tax on accumulated unrepatriated foreign earnings was recorded on a provisional basis in the fiscal year ended June 24, 2018 and is therefore subject to potential measurement period adjustments under SAB 118. Such an adjustment was recorded in the Company's Condensed Consolidated Financial Statements as of the period ended September 23, 2018, incorporating new information into the estimate; the Company may make further adjustments as new information is made available. The adjustment recorded was $36.5 million; revised total estimate is now $919.5 million. The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P") that was previously deferred from U.S. income taxes. The Company had previously accrued deferred taxes on a portion of this E&P. The Company has not yet completed the calculation of total post-1986 E&P and related income tax pools for its foreign subsidiaries. The Company elected to pay the one-time transition tax over a period of eight years.

Beginning in fiscal year 2019, the Company is subject to the impact of the “Global Intangible Low-Taxed Income” (“GILTI”) provision of U.S. tax reform. The GILTI provision imposes taxes on foreign earnings in excess of a deemed return on tangible assets. The Company has calculated the impact of the GILTI provision on current year earnings and has included the impact in the effective tax rate. In addition, the Company evaluated whether deferred taxes should be recorded in relation to the GILTI provision or if the tax should be recorded in the period in which it occurs. Based on current interpretation, the Company could choose either method as an accounting policy election. The Company made an accounting policy election in the September 2018 quarter to record deferred taxes in relation to the GILTI provision. The Company recorded a provisional benefit for the accounting policy election of $48.0 million. Due to the complexity of the GILTI provision, the Company has not yet finalized

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its analysis of GILTI. Therefore, the provisional amount which was recorded related to the accounting policy election is subject to adjustment during the measurement period under SAB 118.

The Company is in various stages of examinations in connection with all of its tax audits worldwide, and it is difficult to determine when these examinations will be settled. It is reasonably possible that over the next 12-month period the Company may experience an increase or decrease in its unrecognized tax benefits as a result of tax examinations or lapses of statute of limitations. The change in unrecognized tax benefits may range up to $31.0 million.

NOTE 7 — NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the treasury stock method, for dilutive stock options, restricted stock units, convertible notes, and warrants. Dilutive shares outstanding include the effect of the convertible notes. Refer to Note 12 - Long-term Debt and Other Borrowings for additional information regarding the Company's convertible notes. The following table reconciles the numerators and denominators of the basic and diluted computations for net income per share.

	Three Months Ended	
	September 23, 2018	September 24, 2017
	(in thousands, except per share data)	
Numerator:		
Net income	$ 533,360	$ 590,690
Denominator:		
Basic average shares outstanding	155,658	162,141
Effect of potential dilutive securities:		
Employee stock plans	1,539	2,514
Convertible notes	6,075	15,151
Warrants	2,055	4,074
Diluted average shares outstanding	165,327	183,880
Net income per share - basic	$ 3.43	$ 3.64
Net income per share - diluted	$ 3.23	$ 3.21

For purposes of computing diluted net income per share, weighted-average common shares do not include potentially dilutive securities that are anti-dilutive under the treasury stock method. The following potentially dilutive securities were excluded:

	Three Months Ended	
	September 23, 2018	September 24, 2017
	(in thousands)	
Options and RSUs	87	7

Diluted shares outstanding do not include any effect resulting from note hedges associated with the Company's 2018 Notes as their impact would have been anti-dilutive.

NOTE 8 — 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 Condensed Consolidated Statements of Operations. All of the Company's other investments are classified as

available-for-sale and consequently are recorded in the Condensed 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.

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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.

The Company's primary financial instruments include its cash, cash equivalents, investments, restricted cash and investments, long-term investments, accounts receivable, accounts payable, long-term debt and capital leases, and foreign currency related derivative instruments. The estimated fair value of cash, accounts receivable, and accounts payable approximates their carrying value due to the short period of time to their maturities. The estimated fair values of capital lease obligations approximate their carrying value as the substantial majority of these obligations have interest rates that adjust to market rates on a periodic basis. Refer to Note 12 - Long-Term Debt and Other Borrowings for additional information regarding the fair value of the Company's senior notes and convertible senior notes.

The following table sets forth the Company's cash, cash equivalents, investments, restricted cash and investments, and other assets measured at fair value on a recurring basis as of September 23, 2018, and June 24, 2018:

	September 23, 2018							
					(Reported Within)			
	Cost	**Unrealized Gain**	**Unrealized (Loss)**	**Fair Value**	**Cash and Cash Equivalents**	**Investments**	**Restricted Cash & Investments**	**Other Assets**
	(in thousands)							
Cash	$653,135	$ —	$ —	$653,135	$647,238	$ —	$ 5,897	$ —
Time deposit	980,416	—	—	980,416	730,389	—	250,027	—
Level 1:								
Money market funds	1,091,683	—	—	1,091,683	1,091,683	—	—	—
U.S. Treasury and agencies	459,201	1	(211)	458,991	32,929	426,062	—	—
Mutual funds	69,807	2,390	(83)	72,114	—	—	—	72,114
Level 1 Total	1,620,691	2,391	(294)	1,622,788	1,124,612	426,062	—	72,114
Level 2:								
Municipal notes and bonds	152,337	2	(581)	151,758	—	151,758	—	—
Government-sponsored enterprises	11,022	—	(204)	10,818	—	10,818	—	—
Foreign government bonds	31,052	—	(8)	31,044	—	31,044	—	—
Corporate notes and bonds	497,206	76	(999)	496,283	65,846	430,437	—	—
Mortgage backed securities — residential	746	—	(2)	744	—	744	—	—
Level 2 Total	692,363	78	(1,794)	690,647	65,846	624,801	—	—
Total	$3,946,605	$ 2,469	$ (2,088)	$3,946,986	$2,568,085	$ 1,050,863	$ 255,924	$72,114

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	June 24, 2018							
					(Reported Within)			
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Cash and Cash Equivalents	Investments	Restricted Cash & Investments	Other Assets
	(in thousands)							
Cash	$708,364	$ —	$ —	$708,364	$702,090	$ —	$ 6,274	$—
Time deposit	999,666	—	—	999,666	749,639	—	250,027	—
Level 1:								
Money market funds	2,341,807	—	—	2,341,807	2,341,807	—	—	—
U.S. Treasury and agencies	356,679	—	(170)	356,509	333,721	22,788	—	—
Mutual funds	68,568	516	(142)	68,942	—	—	—	68,942
Level 1 Total	2,767,054	516	(312)	2,767,258	2,675,528	22,788	—	68,942
Level 2:								
Municipal notes and bonds	152,378	37	(279)	152,136	—	152,136	—	—
Government-sponsored enterprises	110,963	—	(201)	110,762	99,934	10,828	—	—
Foreign government bonds	19,986	—	(1)	19,985	19,985	—	—	—
Corporate notes and bonds	516,955	95	(1,184)	515,866	265,081	250,785	—	—
Mortgage backed securities — residential	804	—	(3)	801	—	801	—	—
Level 2 Total	801,086	132	(1,668)	799,550	385,000	414,550	—	—
Total	$5,276,170	$ 648	$ (1,980)	$5,274,838	$4,512,257	$ 437,338	$ 256,301	$68,942

The Company accounts for its investment portfolio at fair value. Realized gains (losses) for investment sales are specifically identified. Management assesses the fair value of investments in debt securities that are not actively traded through consideration of interest rates and their impact on the present value of the cash flows to be received from the investments. The Company also considers whether changes in the credit ratings of the issuer could impact the assessment of fair value. Additionally, the Company also considers factors such as the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company did not recognize any losses on investments due to other-than-temporary impairments during the three months ended September 23, 2018 or September 24, 2017. Additionally, gross realized gains/(losses) from sales of investments were insignificant in the three months ended September 23, 2018 and September 24, 2017.

The following is an analysis of the Company's cash, cash equivalents, investments, and restricted cash and investments in unrealized loss positions:

	September 23, 2018					
	Unrealized Losses Less than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in thousands)					
U.S. Treasury and agencies	$421,723	$ (92)	$ 5,880	$ (119)	$427,603	$ (211)
Municipal notes and bonds	141,051	(534)	5,725	(47)	146,776	(581)
Mutual funds	17,592	(83)	—	—	17,592	(83)
Government-sponsored enterprises	—	—	10,785	(204)	10,785	(204)
Foreign government bonds	26,928	(8)	—	—	26,928	(8)
Corporate notes and bonds	266,159	(751)	24,286	(248)	290,445	(999)
Mortgage backed securities — residential	743	(2)	—	—	743	(2)
	$874,196	$ (1,470)	$ 46,676	$ (618)	$920,872	$ (2,088)

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The amortized cost and fair value of cash equivalents, investments, and restricted investments with contractual maturities are as follows as of September 23, 2018:

	Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$3,018,982	$3,018,518
Due after one year through five years	200,903	199,465
Due in more than five years	3,778	3,754
	$3,223,663	$3,221,737

The Company has the ability, if necessary, to liquidate its investments in order to meet the Company's liquidity needs in the next 12 months. Accordingly, those investments with contractual maturities greater than twelve months from the date of purchase nonetheless are classified as short-term on the accompanying Condensed Consolidated Balance Sheets.

Derivative Instruments and Hedging

The Company carries derivative financial instruments ("derivatives") on its Condensed Consolidated Balance Sheets at their fair values. The Company enters into foreign currency forward contracts and foreign currency options with financial institutions with the primary objective of reducing volatility of earnings and cash flows related to foreign currency exchange rate fluctuations. In addition, the Company enters into interest rate swap arrangements to manage interest rate risk. The counterparties to these derivatives are large global financial institutions that the Company believes are creditworthy, and therefore, it does not consider the risk of counterparty nonperformance to be material.

Cash Flow Hedges

The Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations on non-U.S. dollar transactions or cash flows, primarily from Japanese yen-denominated revenues and euro- denominated and Korean won-denominated expenses. The Company's policy is to mitigate the foreign exchange risk arising from the fluctuations in the value of these non-U.S. dollar denominated transactions or cash flows through a foreign currency cash flow hedging program, using forward contracts and foreign currency options that generally expire within 12 months and no later than 24 months. These hedge contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in revenue/expense in the same period the hedged items are recognized.

In addition, the Company has entered into interest rate swap agreements to hedge against the variability of cash flows due to changes in certain benchmark interest rates on fixed rate debt. These instruments are designated as cash flow hedges at inception and are settled in conjunction with the issuance of debt. The effective portion of the contracts' gains or losses is included in accumulated other comprehensive (loss) and is amortized into income as the hedged item impacts earnings.

At inception and at each quarter-end, hedges are tested prospectively and retrospectively for effectiveness using regression analysis. Changes in the fair value of foreign exchange contracts due to changes in time value are included in the assessment of effectiveness. To qualify for hedge accounting, the hedge relationship must meet criteria relating to both the derivative instrument and the hedged item. These criteria include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows will be measured. There were no material gains or losses during the three months ended September 23, 2018 and September 24, 2017 associated with forecasted transactions that failed to occur. Additionally, there were no significant gains or losses during the three months ended September 23, 2018 and September 24, 2017 associated with ineffectiveness.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be tested to demonstrate an expectation of providing highly effective offsetting changes to future cash flows on hedged transactions. When derivative instruments are designated and qualify as effective cash

flow hedges, the Company recognizes effective changes in the fair value of the hedging instrument within accumulated other comprehensive income (loss) until the hedged exposure is realized. Consequently the Company's results of operations are not subject to fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that the underlying hedged forecasted transactions will occur, the Company may not be able to account for its derivative instruments as cash flow hedges. If this were to occur, future changes in the fair values of the Company's derivative instruments would be recognized in earnings. Additionally, related amounts previously recorded in other comprehensive income would be reclassified to income immediately. As of September 23, 2018, the Company had a net gain of $6.2 million

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accumulated in other comprehensive income, net of tax, related to foreign exchange cash flow hedges which it expects to reclassify from other comprehensive income into earnings over the next 12 months. Additionally, as of September 23, 2018, the Company had a net loss of $2.2 million accumulated in other comprehensive income, net of tax, related to interest rate contracts which it expects to reclassify from other comprehensive income into earnings over the next 6.5 years.

Fair Value Hedges

The Company has interest rate contracts whereby the Company receives fixed rates and pays variable rates based on certain benchmark interest rates, resulting in a net increase or decrease to interest expense, a component of other expense, net in our Condensed Consolidated Statement of Operations. These interest rate contracts are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. The Company concluded that these interest rate contracts meet the criteria necessary to qualify for the short-cut method of hedge accounting, and as such an assumption is made that the change in the fair value of the hedged debt, due to changes in the benchmark rate, exactly offsets the change in the fair value of the interest rate swap. Therefore, the derivative is considered to be effective at achieving offsetting changes in the fair value of the hedged liability, and no ineffectiveness is recognized.

Balance Sheet Hedges

The Company also enters into foreign currency forward contracts to hedge fluctuations associated with foreign currency denominated monetary assets and liabilities, primarily cash, third-party accounts receivable, accounts payable, and intercompany receivables and payables. These forward contracts are not designated for hedge accounting treatment. Therefore, the change in fair value of these derivatives is recorded as a component of other income (expense) and offsets the change in fair value of the foreign currency denominated assets and liabilities, which are also recorded in other income (expense).

As of September 23, 2018, the Company had the following outstanding foreign currency contracts that were entered into under its cash flow and balance sheet hedge programs:

	Notional Value			
	Derivatives Designated as Hedging Instruments:		**Derivatives Not Designated as Hedging Instruments:**	
	(in thousands)			
Foreign currency forward contracts				
	Buy Contracts	Sell Contracts	Buy Contracts	Sell Contracts
Japanese yen	$—	$ 438,871	$—	$ 244,735
Euro	73,297	—	33,956	—
Korean won	24,387	—	—	169,276
British pound sterling	—	—	32,923	—
Taiwan dollar	—	—	26,044	—
Singapore dollar	—	—	21,915	—
Swiss franc	—	—	19,059	—
Indian rupee	—	—	3,289	—
	$97,684	$ 438,871	$137,186	$ 414,011
Foreign currency option contracts				
	Buy Put	Sell Put	Buy Put	Sell Put
Japanese yen [(1)]	$53,765	$ 56,236	$—	$ —

[(1)] The local currency notional amounts of these foreign currency option contracts are equal to each other.

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The fair value of derivative instruments in the Company's Condensed Consolidated Balance Sheets as of September 23, 2018, and June 24, 2018 were as follows:

	September 23, 2018				**June 24, 2018**			
	Fair Value of Derivative Instruments (Level 2)				Fair Value of Derivative Instruments (Level 2)			
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
	(in thousands)							
Derivatives designated as hedging instruments:								
Foreign exchange contracts	Prepaid expense and other assets	$ 11,330	Accrued expenses and other current liabilities	$ 3,724	Prepaid expense and other assets	$ 7,581	Accrued expenses and other current liabilities	$ 8,866
Interest rate contracts, short-term		—	Accrued expenses and other current liabilities	4,349		—	Accrued expenses and other current liabilities	7,468
Interest rate contracts, long-term		—	Other long-term liabilities	29,126		—	Other long-term liabilities	23,720
Derivatives not designated as hedging instruments:								
Foreign exchange contracts	Prepaid expense and other assets	105	Accrued expenses and other current liabilities	46	Prepaid expense and other assets	111	Accrued expenses and other current liabilities	32
Total Derivatives		$ 11,435		$ 37,245		$ 7,692		$ 40,086

Under the master netting agreements with the respective counterparties to the Company's derivative contracts, subject to applicable requirements, the Company is allowed to net settle transactions of the same currency with a single net amount payable by one party to the other. However, the Company has elected to present the derivative assets and derivative liabilities on a gross basis on its balance sheet. As of September 23, 2018, the potential effect of rights of offset associated with the above foreign exchange and interest rate contracts would be an offset to assets and liabilities by $6.2 million, resulting in a net derivative asset of $5.2 million and net derivative liability of $31.0 million. As of June 24, 2018, the potential effect of rights of offset associated with the above foreign exchange contracts would be an offset to both assets and liabilities by $5.6 million, resulting in a net derivative asset of $2.1 million and a net derivative liability of $34.4 million. The Company is not required to pledge, nor is the Company entitled to receive, cash collateral for these derivative transactions.

The effect of derivative instruments designated as cash flow hedges on the Company's Condensed Consolidated Statements of Operations, including accumulated other comprehensive income ("AOCI") was as follows:

		Three Months Ended September 23, 2018	
	Location of Gain or (Loss) Recognized in or Reclassified into Income	**Gain (Loss) Recognized in AOCI**	**Gain (Loss) Reclassified from AOCI into Income**
		(in thousands)	
Derivatives in Cash Flow Hedging Relationships			
Foreign Exchange Contracts	Revenue	$8,441	$ 674
Foreign Exchange Contracts	Cost of goods sold	(124)	(1,557)
Foreign Exchange Contracts	Selling, general, and administrative	(204)	(527)
Interest Rate Contracts	Other expense, net	—	(33)
		$8,113	$ (1,443)

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		Three Months Ended September 24, 2017		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness
Derivatives Designated as Hedging Instruments	**Location of Gain (Loss) Recognized in or Reclassified into Income**	**(Loss) Gain Recognized in AOCI**	**(Loss) Gain Reclassified from AOCI into Income**	**Gain (Loss) Recognized in Income**
		(in thousands)		
Foreign Exchange Contracts	Revenue	$(9)	$ (3,806)	$ 2,547
Foreign Exchange Contracts	Cost of goods sold	2,443	824	(208)
Foreign Exchange Contracts	Selling, general, and administrative	1,356	714	(117)
Foreign Exchange Contracts	Other expense, net	—	—	(17)
Interest Rate Contracts	Other expense, net	—	(31)	—
		$3,790	$ (2,299)	$ 2,205

The effect of derivative instruments not designated as cash flow hedges on the Company's Condensed Consolidated Statements of Operations was as follows:

Derivatives Not Designated as Hedging Instruments:	**Location of Gain Recognized in Income**	**Three Months Ended September 23, 2018 Gain Recognized in Income**	**September 24, 2017 Gain Recognized in Income**
		(in thousands)	
Foreign Exchange Contracts	Other income	$10,588	$ 2,672

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The following table presents the effect of the fair value cash flow hedge accounting on the Statement of Financial Performance as well as presents the location and amount of gain/(loss) recognized in Income on fair value and cash flow hedging relationships:

	Three Months Ended September 23, 2018			
	Revenue	Cost of Goods Sold	Selling, General and Admini-strative	Other Income (Expense)
	(in thousands)			
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded:				
	$2,330,691	$1,272,493	$ 174,775	$ (377)
The effects of fair value and cash flow hedging:				
Gain or (loss) on fair value hedging relationships in Subtopic 815-20:				
Interest contracts:				
Hedged items	—	—	—	2,286
Derivatives designated as hedging instruments	—	—	—	(2,286)
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20:				
Foreign exchange contracts:				
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	674	(1,557)	(527)	—
Interest rate contracts:				
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	—	—	—	(33)

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, investments, restricted cash and investments, trade accounts receivable, and derivative financial instruments used in hedging activities. Cash is placed on deposit at large global financial institutions. Such deposits may be in excess of insured limits. Management believes that the financial institutions that hold the Company's cash are creditworthy and, accordingly, minimal credit risk exists with respect to these balances.

The Company's overall portfolio of available-for-sale securities must maintain an average minimum rating of "AA-" or "Aa3" as rated by Standard and Poor's, Fitch Ratings, or Moody's Investor Services. To ensure diversification and minimize concentration, the Company's policy limits the amount of credit exposure with any one financial institution or commercial issuer.

The Company is exposed to credit losses in the event of nonperformance by counterparties on foreign currency and interest rate hedge contracts that are used to mitigate the effect of exchange rate and interest rate fluctuations, and on contracts related to structured share repurchase arrangements. These counterparties are large global financial institutions and, to date, no such counterparty has failed to meet its financial obligations to the Company.

Credit risk evaluations, including trade references, bank references, and Dun & Bradstreet ratings, are performed on all new customers and the Company monitors its customers' financial condition and payment performance. In general, the Company does not require collateral on sales.

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NOTE 9 — INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. System shipments to customers in Japan, for which title does not transfer until customer acceptance, are classified as finished goods inventory and carried at cost until title transfers. Inventories consist of the following:

	September 23, 2018	June 24, 2018
	(in thousands)	
Raw materials	$994,676	$916,438
Work-in-process	187,352	222,921
Finished goods	692,166	736,803
	$1,874,194	$1,876,162

NOTE 10 — GOODWILL AND INTANGIBLE ASSETS

Goodwill

The balance of goodwill is approximately $1.5 billion as of September 23, 2018, and June 24, 2018, respectively. As of September 23, 2018, $61.1 million of the goodwill balance is tax deductible and the remaining balance is not tax deductible due to purchase accounting and applicable foreign law.

Intangible Assets

The following table provides the Company's intangible assets:

	September 23, 2018			June 24, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Customer relationships	$630,214	$(445,789)	$184,425	$630,220	$(433,309)	$196,911
Existing technology	669,507	(599,452)	70,055	669,520	(576,844)	92,676
Patents and other intangible assets	101,017	(72,808)	28,209	99,767	(71,518)	28,249
Total intangible assets	$1,400,738	$(1,118,049)	$282,689	$1,399,507	$(1,081,671)	$317,836

During the three months ended September 23, 2018 and September 24, 2017, the Company recognized $36.4 million and $39.3 million, respectively, in intangible asset amortization expense.

The estimated future amortization expense of intangible assets as of September 23, 2018, was as follows:

Fiscal Year	Amount
	(in thousands)
2019 (remaining 9 months)	$89,651
2020	60,925
2021	58,241
2022	54,680
2023	11,146
Thereafter	8,046
	$282,689

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NOTE 11 — ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	September 23, 2018	June 24, 2018
	(in thousands)	
Accrued compensation	$516,644	$506,471
Warranty reserves	179,606	192,480
Income and other taxes payable	253,308	185,384
Dividend payable	167,907	174,372
Other	230,407	250,502
	$1,347,872	$1,309,209

NOTE 12 — LONG-TERM DEBT AND OTHER BORROWINGS

As of September 23, 2018, and June 24, 2018, the Company's outstanding debt consisted of the following:

	September 23, 2018		June 24, 2018	
	Amount (in thousands)	Effective Interest Rate	Amount (in thousands)	Effective Interest Rate
Fixed-rate 2.75% Senior Notes Due March 15, 2020 ("2020 Notes")	$500,000	2.88 %	$500,000	2.88 %
Fixed-rate 2.80% Senior Notes Due June 15, 2021 ("2021 Notes")	800,000	2.95 %	800,000	2.95 %
Fixed-rate 3.80% Senior Notes Due March 15, 2025 ("2025 Notes")	500,000	3.87 %	500,000	3.87 %
Fixed-rate 2.625% Convertible Notes Due May 15, 2041 ("2041 Notes")	247,510 [1]	4.28 %	326,953 [1]	4.28 %
Commercial paper	360,000	2.30 % [2]	360,000	2.33 % [2]
Total debt outstanding, at par	2,407,510		2,486,953	
Unamortized discount	(65,388)		(85,196)	
Fair value adjustment - interest rate contracts	(33,475)		(31,189)	
Unamortized bond issuance costs	(1,688)		(1,820)	
Total debt outstanding, at carrying value	$2,306,959		$2,368,748	
Reported as:				
Current portion of long-term debt, and commercial paper	$548,400 [1]		$608,532 [1]	
Long-term debt	1,758,559		1,760,216	
Total debt outstanding, at carrying value	$2,306,959		$2,368,748	

[1] As of the report date, these notes were convertible at the option of the bondholder. This is a result of the following condition being met: the market value of the Company's Common Stock was greater than130% of the convertible notes conversion price for 20 or more of the 30 consecutive trading days preceding the quarter-end. As a result, the 2041 Notes were classified in current liabilities and a portion of the equity component, associated with the convertible notes representing the unamortized discount, was classified in temporary equity on the Company's Consolidated Balance Sheets. Upon closure of the conversion period, the notes not converted will be reclassified back into noncurrent liabilities and the temporary equity will be reclassified into permanent equity.

[2] Represents the weighted average effective interest rate for all outstanding balances as of the report date.

Convertible Senior Notes

In June 2012, with the acquisition of Novellus Systems, Inc. ("Novellus"), the Company assumed $700 million in aggregate principal amount of 2.625% Convertible Senior Notes due May 2041 (the "2041 Notes,"). The Company pays cash interest at an annual rate of 2.625%, on a semi-annual basis on May 15 and November 15 of each year. The 2041 Notes also have a contingent interest payment provision that may require the Company to pay additional interest, up to 0.60% per year, based on certain thresholds, beginning with the semi-annual interest payment on May 15, 2021, and upon the occurrence of certain events, as outlined in the indenture governing the 2041 Notes.

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The Company separately accounts for the liability and equity components of the 2041 Notes. The initial debt components of the 2041 Notes were valued based on the present value of the future cash flows using the Company's borrowing rate at the date of the issuance or assumption for similar debt instruments without the conversion feature, which equals the effective interest rate on the liability component disclosed in the table below, respectively. The equity component was initially valued equal to the principle value of the notes, less the present value of the future cash flows using the Company's borrowing rate at the date of the issuance or assumption for similar debt instruments without a conversion feature, which equated to the initial debt discount.

The 2041 Notes may be redeemed on or after May 21, 2021 at a price equal to outstanding principal plus accrued and unpaid interest if the last reported sales price of common shares has been equal to or more than 150% of the then applicable conversion price for at least 20 trading days during the 30 consecutive trading days prior to the redemption notice date.

Under certain circumstances, the 2041 Notes may be converted into shares of the Company's Common Stock. The number of shares each debenture is convertible into is based on conversion rates, disclosed in the table below. The principal value of the 2041 Note conversions in the three months ended September 23, 2018, was approximately $79.4 million. During the quarter ended September 23, 2018, and in the subsequent period through October 19, 2018, the Company received notice of conversion of an additional $6.0 million principal value of 2041 Notes. Selected additional information regarding the 2041 Notes outstanding as of September 23, 2018, and June 24, 2018, is as follows:

	September 23, 2018	June 24, 2018
	2041 Notes	2041 Notes
	(in thousands, except years, percentages, conversion rate, and conversion price)	
Carrying amount of permanent equity component, net of tax	$159,523	$159,120
Carrying amount of temporary equity component, net of tax	$58,812	$78,192
Remaining amortization period (years)	22.6	22.9
Fair Value of Notes (Level 2)	$1,161,772	
Conversion rate (shares of common stock per $1,000 principal amount of notes)	30.3454	
Conversion price (per share of common stock)	$32.95	
If-converted value in excess of par value	$921,771	
Estimated share dilution using average quarterly stock price $172.39 per share	6,075	

Convertible Warrants

The Company has warrants outstanding in connection with its 2018 convertible notes that matured in May 2018. The warrants settlement is contractually defined as net share settlement. The exercise price is adjusted for certain corporate events, including dividends on the Company's Common Stock. During the three months ended September 23, 2018, 4.1 million warrants associated with the 2018 Notes were exercised, resulting in the issuance of approximately 2.3 million shares of the Company's Common Stock.

The following table presents the details of the outstanding warrants as of September 23, 2018:

	2018 Notes (shares in thousands)
Warrants:	
Underlying shares	3,500
Estimated share dilution using average quarterly stock price $172.39 per share	2,055
Exercise price	$71.42
Remaining expiration date range	September 24 - October 24, 2018

Senior Notes

On March 12, 2015, the Company completed a public offering of $500 million aggregate principal amount of the Company's Senior Notes due March, 2020 (the "2020 Notes") and $500 million aggregate principal amount of the Company's Senior Notes due March, 2025 (the "2025 Notes", together with the 2020 Notes, the "Senior Notes"). The Company pays interest at an annual rate of 2.75% and 3.80%, on the 2020 Notes and 2025 Notes, respectively, on a semi-annual basis on March 15 and September 15 of each year. During the year ended June 26, 2016, the Company entered into a series of interest rate contracts hedging the fair value of a portion of the 2025 Notes par value, whereby the Company receives a fixed rate and pays a variable

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rate based on a certain benchmark interest rate. Refer to Note 8 - Financial Instruments for additional information regarding these interest rate contracts.

The Company may redeem the Senior Notes at a redemption price equal to 100% of the principal amount of such series ("par"), plus a "make whole" premium as described in the indenture in respect of the Senior Notes and accrued and unpaid interest before February 15, 2020, for the 2020 Notes and before December 15, 2024, for the 2025 Notes. The Company may redeem the Senior Notes at par, plus accrued and unpaid interest at any time on or after February 15, 2020, for the 2020 Notes and on or after December 24, 2024, for the 2025 Notes. In addition, upon the occurrence of certain events, as described in the indenture, the Company will be required to make an offer to repurchase the Senior Notes at a price equal to 101% of the principal amount of the Senior Notes, plus accrued and unpaid interest.

On June 7, 2016, the Company completed a public offering of $800 million aggregate principal amount of Senior Notes due June 2021 (the "2021 Notes", together with the 2020 and 2025 Notes, the "Senior Notes"). The Company pays interest at an annual rate of 2.80% on the 2021 Notes on a semi-annual basis on June 15 and December 15 of each year.

The Company may redeem the 2021 Notes at a redemption price equal to 100% of the principal amount of such series ("par"), plus a "make whole" premium as described in the indenture in respect to the 2021 Notes and accrued and unpaid interest before May 15, 2021. The Company may redeem the 2021 Notes at par, plus accrued and unpaid interest at any time on or after May 15, 2021. In addition, upon the occurrence of certain events, as described in the indenture, the Company will be required to make an offer to repurchase the 2021 Notes at a price equal to 101% of the principal amount of the respective note, plus accrued and unpaid interest.

Selected additional information regarding the Senior Notes outstanding as of September 23, 2018, is as follows:

	Remaining Amortization period (years)	Fair Value of Notes (Level 2) (in thousands)
2020 Notes	1.5	$ 496,460
2021 Notes	2.7	$ 787,304
2025 Notes	6.5	$ 494,860

Commercial Paper Program

On November 13, 2017, the Company established a commercial paper program ("the CP Program") under which the Company may issue unsecured commercial paper notes on a private placement basis up to a maximum aggregate principal amount of $1.25 billion. The net proceeds from the commercial paper program will be used for general corporate purposes, including repurchases of the Company's Common Stock from time to time and under the Company's stock repurchase program. As of September 23, 2018, borrowings under the CP Program totaled $360.0 million, with a weighted-average interest rate of 2.30% and maturities of 90 days or less. Amounts available under the CP Program may be re-borrowed.

Revolving Credit Facility

On October 13, 2017, the Company entered into Amendment No. 2 to Amended and Restated Credit Agreement (the "2nd Amendment"), which amends the Company's prior unsecured Credit Agreement (as amended by the 2nd Amendment, the "Amended Credit Agreement"). Among other things, the Amended Credit Agreement provides for a $500 million increase to the Company's revolving credit facility, from $750 million to $1.25 billion with a syndicate of lenders. The Amended Credit Agreement provides for an expansion option that will allow the Company, subject to certain requirements, to request an increase in the facility of up to an additional $600 million, for a potential total commitment of $1.85 billion. The facility matures on October 13, 2022.

Interest on amounts borrowed under the credit facility is, at the Company's option, based on (1) a base rate, defined as the greatest of (a) prime rate, (b) Federal Funds rate plus 0.5%, or (c) one-month LIBOR plus 1.0%, plus a spread of 0.0% to 0.5%, or (2) LIBOR multiplied by the statutory rate, plus a spread of 0.9% to 1.5% in each case as the applicable spread is determined based on the rating of the Company's non-credit enhanced, senior unsecured long-term

debt. Principal and any accrued and unpaid interest is due and payable upon maturity. Additionally, the Company will pay the lenders a quarterly commitment fee that varies based on the Company's credit rating. The Amended and Restated Credit Agreement contains affirmative covenants, negative covenants, financial covenants and events of default. As of September 23, 2018, the Company had no borrowings outstanding under the credit facility and was in compliance with all financial covenants.

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Interest Cost

The following table presents the amount of interest cost recognized relating to both the contractual interest coupon and amortization of the debt discount, issuance costs, and effective portion of interest rate contracts with respect to the Senior Notes, convertible notes, the term loan agreement, commercial paper, and the revolving credit facility during the three months ended September 23, 2018, and September 24, 2017.

	Three Months Ended	
	September 23, 2018	September 24, 2017
	(in thousands)	
Contractual interest coupon	$17,427	$17,956
Amortization of interest discount	900	4,104
Amortization of issuance costs	329	485
Effect of interest rate contracts, net	753	(349)
Total interest cost recognized	$19,409	$22,196

NOTE 13 — COMMITMENTS AND CONTINGENCIES

Operating Leases and Related Guarantees

The Company leases the majority of its administrative, research and development ("R&D") and manufacturing facilities, regional sales/service offices, and certain equipment under non-cancelable operating leases. Certain of the Company's facility leases for buildings located at its Fremont, California headquarters, Tualatin, Oregon campus, and certain other facility leases provide the Company with options to extend the leases for additional periods or to purchase the facilities. Certain of the Company's facility leases provide for periodic rent increases based on the general rate of inflation.

The Company has operating leases regarding certain improved properties in Fremont and Livermore, California (the "Operating Leases"). The Company was required to maintain cash collateral in an aggregate of approximately $250.0 million in separate interest-bearing accounts as security for the Company's obligations. These amounts are recorded with other restricted cash and investments in the Company's Condensed Consolidated Balance Sheet as of September 23, 2018.

During the term of the Operating Leases and when the terms of the Operating Leases expire, the property subject to those Operating Leases may be remarketed. The Company has guaranteed to the lessor that each property will have a certain minimum residual value. The aggregate guarantee made by the Company under the Operating Leases is generally no more than approximately $220.4 million; however, under certain default circumstances, the guarantee with regard to an Operating Lease may be 100% of the lessor's aggregate investment in the applicable property, which in no case will exceed $250.0 million, in the aggregate.

Other Guarantees

The Company has issued certain indemnifications to its lessors for taxes and general liability under some of its agreements. The Company has entered into certain insurance contracts that are intended to limit its exposure to such indemnifications. As of September 23, 2018, the Company had not recorded any liability in connection with these indemnifications, as it does not believe that it is probable that any amounts will be paid under these guarantees.

Generally, the Company indemnifies, under pre-determined conditions and limitations, its customers for infringement of third party intellectual property rights by the Company's products or services. The Company seeks to limit its liability for such indemnity to an amount not to exceed the sales price of the products or services subject to its indemnification obligations. The Company does not believe that it is probable that any material amounts will be paid under these guarantees.

The Company provides guarantees and standby letters of credit to certain parties as required for certain transactions initiated during the ordinary course of business. As of September 23, 2018, the maximum potential amount of future payments that it could be required to make under these arrangements and letters of credit was $26.1 million. The Company does not believe, based on historical experience and information currently available, that it is probable that

any amounts will be required to be paid.

In addition, the Company has entered into indemnification agreements with its officers and directors, consistent with its Bylaws and Articles of Incorporation; and under California law, the Company is required to provide indemnification to all its employees for actions within the scope of their employment. Although the Company maintains insurance contracts that cover some of the potential liability associated with these indemnification agreements, there is no guarantee that all such liabilities will be

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covered. The Company does not believe, based on historical experience and information currently available, that it is probable that any material amounts will be required to be paid under such indemnification agreements or statutory obligations.

Warranties

The Company provides standard warranties on its systems. The liability amount is based on actual historical warranty spending activity by type of system, customer, and geographic region, modified for any known differences such as the impact of system reliability improvements.

Changes in the Company's product warranty reserves were as follows:

	Three Months Ended	
	September 23, 2018	September 24, 2017
	(in thousands)	
Balance at beginning of period	$192,480	$161,981
Warranties issued during the period	69,575	48,790
Settlements made during the period	(87,305)	(44,053)
Changes in liability for pre-existing warranties	4,856	1,619
Balance at end of period	$179,606	$168,337

Legal proceedings

While the Company is not currently a party to any legal proceedings that it believes material, the Company is either a defendant or plaintiff in various actions that have arisen from time to time in the normal course of business, including intellectual property claims. The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. Based on current information, the Company does not believe that a material loss from known matters is probable and therefore has not recorded an accrual for litigation or other contingencies related to existing legal proceedings.

NOTE 14 — STOCK REPURCHASE PROGRAM

In March 2018, the Board of Directors authorized the Company to repurchase up to an additional $2.0 billion of Common Stock. The new authorization increased the share repurchase authorization granted in November 2017 to an aggregate of $4.0 billion of Common Stock, and supplements the remaining balances from any prior authorizations. These repurchases can be conducted on the open market or as private purchases and may include the use of derivative contracts with large financial institutions, in all cases subject to compliance with applicable law. Repurchases are funded using the Company's cash, cash generation, and available credit facilities. This repurchase program has no termination date and may be suspended or discontinued at any time.

Repurchases under the repurchase program were as follows during the periods indicated:

Period	Total Number of Shares Repurchased	Total Cost of Repurchase	Average Price Paid Per Share (1)	Amount Available Under Repurchase Program
	(in thousands, except per share data)			
Available balance as of June 24, 2018				$ 1,733,638
Quarter ended September 23, 2018	7,807	$1,733,530	$ 183.55	$ 108

(1) Average price paid per share excludes effect of accelerated share repurchases; see additional disclosure below regarding our accelerated share repurchase activity during the fiscal year.

In addition to the shares repurchased under the Board-authorized repurchase program shown above, during the three months ended September 23, 2018, the Company acquired 14 thousand shares at a total cost of $2.4 million which the Company withheld through net settlements to cover minimum tax withholding obligations upon the vesting of restricted stock unit awards granted under the Company's equity compensation plans. The shares retained by the

Company through these net share settlements are not a part of the Board-authorized repurchase program but instead are authorized under the Company's equity compensation plan.

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Accelerated Share Repurchase Agreements Executed in September Quarter

On August 15, 2018, the Company entered into four separate accelerated share repurchase agreements (collectively, the "August 2018 ASR") with two financial institutions to repurchase a total of $1.4 billion of Common Stock. The Company took an initial delivery of approximately 5.8 million shares, which represented 75% of the prepayment amount divided by the Company's closing stock price on August 14, 2018. The total number of shares to be received under the August 2018 ASR will be based upon the average daily volume weighted average price of the Company's Common Stock during the repurchase period, less an agreed upon discount. Final settlement for the August 2018 ASR is expected to be completed no later than February 15, 2019.

NOTE 15 — ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive income (loss), net of tax at the end of the period, as well as the activity during the period, were as follows:

	Accumulated Foreign Currency Translation Adjustment	Accumulated Unrealized Gain or Loss on Cash flow hedges	Accumulated Unrealized Holding Gain or Loss on Available-For-Sale Investments	Accumulated Unrealized Components of Defined Benefit Plans	Total
	(in thousands)				
Balance as of June 24, 2018	$(32,722)	$(4,042)	$(1,190)	$(19,495)	$(57,449)
Other comprehensive (loss) income before reclassifications	(6,261)	7,265	(287)	85	802
Losses (income) reclassified from accumulated other comprehensive income (loss) to net income	—	1,148 (1)	(3) (2)	—	1,145
Effects of ASU 2018-02 adoption	—	(399)	—	(1,828)	(2,227)
Net current-period other comprehensive income (loss)	$(6,261)	$8,014	$(290)	$(1,743)	$(280)
Balance as of September 23, 2018	$(38,983)	$3,972	$(1,480)	$(21,238)	$(57,729)

(1) Amount of after tax gain reclassified from AOCI into net income located in revenue: $600 gain; cost of goods sold: $1,325 loss; selling, general, and administrative expenses: $398 loss; and other income and expense: $25 loss.
(2) Amount of after tax gain reclassified from accumulated other comprehensive income into net income located in other expense, net.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Certain, but not all, of the forward-looking statements in this report are specifically identified as forward-looking, by use of phrases and words such as "believe," "estimated," "anticipate," "expect," "probable," "intend," "plan," "aim," "may," "should," "could," "would," "will," "continue," and other future-oriented terms. The identification of certain statements as "forward-looking" does not mean that other statements not specifically identified are not forward-looking. Forward-looking statements include but are not limited to statements that relate to: trends and opportunities in the global economic environment and the semiconductor industry; the anticipated levels of, and rates of change in, margins, market share, served addressable market, capital expenditures, research and development expenditures, international sales, revenue (actual and/or deferred), operating expenses and earnings generally; management's plans and objectives for our current and future operations and business focus; volatility in our quarterly results; customer and end user requirements and our ability to satisfy those requirements; customer capital spending and their demand for our products and services, and the reliability of indicators of change in customer spending and demand; the effect of variability in our customers' business plans or demand for our equipment and services; changes in demand for our products and in our market share resulting from, among other things, any change in our customers' proportion of capital expenditure (with respect to certain technology inflections); hedging transactions; debt or financing arrangements; our competition, our ability to defend our market share, and to gain new market share; our ability to obtain and qualify alternative sources of supply; the impact of U.S. tax reform, our estimated annual tax rate and the factors that affect our tax rates; anticipated growth in the industry and the total market for wafer fabrication equipment and our growth relative to such growth; the success of joint development and collaboration relationships with customers, suppliers, or others; outsourced activities; the role of component suppliers in our business; our leadership and competency, and their ability to facilitate innovation; our ability to continue to, including the underlying factors that, create sustainable differentiation; the resources invested to comply with evolving standards and the impact of such efforts; legal and regulatory compliance; the estimates we make, and the accruals we record, in order to implement our critical accounting policies (including but not limited to the adequacy of prior tax payments, future tax benefits or liabilities, and the adequacy of our accruals relating to them); our investment portfolio; our access to capital markets; uses of, payments of, and impact of interest rate fluctuations on, our debt; our intention to pay quarterly dividends and the amounts thereof, if any; our ability and intention to repurchase our shares; credit risks; controls and procedures; recognition or amortization of expenses; our ability to manage and grow our cash position; and the sufficiency of our financial resources or liquidity to support future business activities (including but not limited to operations, investments, debt service requirements, and capital expenditures). Such statements are based on current expectations and are subject to risks, uncertainties, and changes in condition, significance, value, and effect, including without limitation those discussed below under the heading "Risk Factors" within Part II Item 1A and elsewhere in this report and other documents we file from time to time with the Securities and Exchange Commission ("SEC"), such as our annual report on Form 10-K for the year ended June 24, 2018 (our "2018 Form 10-K"), and our current reports on Form 8-K. Such risks, uncertainties, and changes in condition, significance, value, and effect could cause our actual results to differ materially from those expressed in this report and in ways not readily foreseeable. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on information currently and reasonably known to us. We do not undertake any obligation to release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances that occur after the date of this report or to reflect the occurrence or effect of anticipated or unanticipated events.

Documents To Review In Connection With Management's Discussion and Analysis Of Financial Condition and Results Of Operations

For a full understanding of our financial position and results of operations for the three months ended September 23, 2018, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations below, you should also read the Condensed Consolidated Financial Statements and notes presented in this Form 10-Q and the financial statements and notes in our 2018 Form 10-K.

EXECUTIVE SUMMARY

Lam Research is a global supplier of innovative wafer fabrication equipment and services to the semiconductor industry. We have built a strong global presence with core competencies in areas like nanoscale applications enablement, chemistry, plasma and fluidics, advanced systems engineering and a broad range of operational disciplines. Our products and services are designed to help our customers build smaller, faster, and better performing devices that are used in a variety of electronic

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products, including mobile phones, personal computers, servers, wearables, automotive devices, storage devices, and networking equipment. Our vision is to realize full value from natural technology extensions of our company.

Our customer base includes leading semiconductor memory, foundry, and integrated device manufacturers that make products such as non-volatile memory, DRAM memory, and logic devices. We aim to increase our strategic relevance with our customers by contributing more to their continued success. Our core technical competency is integrating hardware, process, materials, software, and process control enabling results on the wafer.

Semiconductor manufacturing, our customers' business, involves the complete fabrication of multiple dies or integrated circuits on a wafer. This involves the repetition of a set of core processes and can require hundreds of individual steps. Fabricating these devices requires highly sophisticated process technologies to integrate an increasing array of new materials with precise control at the atomic scale. Along with meeting technical requirements, wafer processing equipment must deliver high productivity and be cost-effective.

Demand from the Cloud, Internet of Things, and other markets is driving the need for increasingly powerful and cost-efficient semiconductors. At the same time, there are growing technical challenges with traditional scaling. These trends are driving significant inflections in semiconductor manufacturing, such as the increasing importance of vertical 3D scaling strategies as well as multiple patterning to enable shrinks.

We believe we are in a strong position with our leadership and competency in deposition, etch, and clean to facilitate some of the most significant innovations in semiconductor device manufacturing. Several factors create opportunity for sustainable differentiation for us: (i) our focus on research and development, with several on-going programs relating to sustaining engineering, product and process development, and concept and feasibility; (ii) our ability to effectively leverage cycles of learning from our broad installed base; (iii) our collaborative focus with ecosystem partners; and (iv) focus on delivering our multi-product solutions with a goal to enhance the value of Lam's solutions to our customers.

Despite recent semiconductor capital investment volatility, over the longer term, we believe that technology inflections in our industry, including 3D device scaling, multiple patterning, process flow, and advanced packaging chip integration will lead to an increase in our served addressable market for our products and services in deposition, etch, and clean. While there could be continued variability in the near-term, we believe that demand for our products and services will increase faster than overall spending on wafer fabrication equipment, as the proportion of customers' capital expenditures rises in these technology inflection areas, and we continue to gain market share.

The following summarizes certain key financial information for the periods indicated below:

	Three Months Ended		
	September 23, 2018	June 24, 2018	September 24, 2017
	(in thousands, except per share data and percentages)		
Revenue	$2,330,691	$3,125,928	$2,478,140
Gross margin	$1,058,198	$1,479,408	$1,149,343
Gross margin as a percent of total revenue	45.4 %	47.3 %	46.4 %
Total operating expenses	$466,447	$524,213	$456,121
Net income	$533,360	$1,021,146	$590,690
Diluted net income per share	$3.23	$5.82	$3.21

In the September 2018 quarter, revenue decreased compared to the June 2018 quarter primarily as a result of lower customer demand during the quarter. Gross margin as a percentage of revenue in the September 2018 quarter decreased as compared to the June 2018 quarter primarily due to lower factory utilization and customer and product mix. Operating expenses in the September 2018 quarter decreased compared to the June 2018 quarter mainly due to a decrease in variable compensation, outside services and supplies.

Our cash and cash equivalents, investments, and restricted cash and investments balances decreased to $3.9 billion as of September 23, 2018, compared to $5.2 billion as of June 24, 2018; driven by $1.7 billion of share repurchases, including net share settlement on employee stock-based compensation and $174 million of dividends paid to stockholders, offset by cash generated by operations of approximately $720 million. Employee headcount as of September 23, 2018, was approximately 11,000.

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RESULTS OF OPERATIONS

Revenue

	Three Months Ended		
	September 23, 2018	June 24, 2018	September 24, 2017
Revenue (in millions)	$2,331	$3,126	$2,478
Japan	29 %	18 %	20 %
China	25 %	21 %	14 %
Korea	16 %	35 %	38 %
Taiwan	12 %	10 %	14 %
Southeast Asia	9 %	5 %	5 %
United States	5 %	5 %	6 %
Europe	4 %	6 %	3 %

Revenue for the September 2018 quarter decreased 25% and 6% from the June 2018 and September 2017 quarters, respectively, reflecting lower customer demand for semiconductor equipment. Our deferred revenue balance at September 23, 2018 decreased to $626 million, as compared to $994 million as of June 24, 2018, as a result of our adoption of ASC 606, as well as timing of revenue recognition. Our deferred revenue balance does not include system shipments to customers in Japan, for which title does not transfer until customer acceptance. Shipments to customers in Japan are classified as inventory at cost until the time of acceptance. The estimated future revenue value from shipments to customers in Japan was approximately $454 million as of September 23, 2018, and $607 million as of June 24, 2018.

The percentages of system revenues to each of the markets we serve were as follows for the periods presented:

	Three Months Ended September 23, 2018
Memory	77 %
Foundry	17 %
Logic/integrated device manufacturing	6 %

Gross Margin

	Three Months Ended		
	September 23, 2018	June 24, 2018	September 24, 2017
	(in thousands, except percentages)		
Gross margin	$1,058,198	$1,479,408	$1,149,343
Percent of revenue	45.4 %	47.3 %	46.4 %

Gross margin as a percentage of revenue decreased in the September 2018 quarter compared to the June 2018 quarter primarily due to lower factory utilization and changes in customer and product mix. The decrease in gross margin as a percentage of revenue in the September 2018 quarter compared to the September 2017 quarter is primarily due to lower factory utilization.

Research and Development

	Three Months Ended		
	September 23, 2018	June 24, 2018	September 24, 2017
	(in thousands, except percentages)		
Research & development (“R&D”)	$291,672	$327,713	$275,078
Percent of revenue	12.5 %	10.5 %	11.1 %

We continued to make significant R&D investments focused on leading-edge deposition, etch, clean and other semiconductor manufacturing requirements. The spending in the September 2018 quarter decreased compared to the June 2018 quarter due to an $18 million decrease in variable compensation and a $7 million decrease in supplies. The

increase in R&D during the September 2018 quarter compared to the same period in the prior year was mainly due to an increase of $20 million in salaries

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and benefits due to higher headcount, a $4 million increase in outside services, partially offset by a $12 million decrease in variable compensation.

Selling, General, and Administrative

	Three Months Ended		
	September 23, 2018	June 24, 2018	September 24, 2017
	(in thousands, except percentages)		
Selling, general, and administrative ("SG&A")	$174,775	$196,500	$181,043
Percent of revenue	7.5 %	6.3 %	7.3 %

Selling, general, and administrative during the September 2018 quarter decreased in comparison to the June 2018 quarter mainly due to an $18 million decrease in variable compensation. The decrease in SG&A during the September 2018 quarter compared to the same period in the prior year was primarily due to a decrease of $15 million in variable compensation, partially offset by an increase of $5 million in salaries and benefit due to higher headcount.

Other Expense, Net

Other expense, net consisted of the following:

	Three Months Ended		
	September 23, 2018	June 24, 2018	September 24, 2017
	(in thousands)		
Interest income	$18,933	$23,265	$20,209
Interest expense	(21,788)	(24,431)	(23,905)
Gains on deferred compensation plan related assets, net	5,213	7,160	3,453
Loss on extinguishment of debt	83	542	—
Foreign exchange gains (losses), net	51	(513)	(3,000)
Other, net	(2,869)	(3,069)	(2,259)
	$(377)	$2,954	$(5,502)

Interest income decreased in the September 2018 quarter compared to the June 2018 and September 2017 quarters as a result lower cash balances, offset by higher yield.

Interest expense decreased in the September 2018 quarter compared to the June 2018 and September 2017 quarters due to the retirement of the 2018 Convertible Note and conversions of the 2041 Convertible Note.

Changes in the market value of securities in the portfolio drove the noted variability in the gains on assets related to obligations under our deferred compensation plan.

Foreign exchange fluctuations are primarily due to currency movements against portions of our unhedged balance sheet exposures.

Other net was higher during the September 2018 quarter compared to the September 2017 quarter primarily due to an increase in charitable contributions during the September 2018 quarter.

Income Tax Expense

As discussed in Note 6, "Income Tax Expense" of our Condensed Consolidated Financial Statements, the "Tax Cuts & Jobs Act" was signed into law on December 22, 2017 and was effective starting in our quarter ended December 24, 2017. U.S. tax reform reduces the U.S. federal statutory tax rate from 35% to 21%, mandates payment of a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign sourced earnings. The impact on income taxes due to change in legislation is required under the authoritative guidance of Accounting Standards Codification ("ASC") 740, Income Taxes, to be recognized in the period in which the law is enacted. In conjunction, the SEC issued Staff Accounting Bulletin ("SAB") 118, which allows for the recording of provisional amounts related to U.S. tax reform and subsequent adjustments related to U.S. tax reform during an up to one-year measurement period that is similar to the measurement period used when accounting for business combinations. We recorded what we believe to be reasonable estimates and the provisional activity is subject to further adjustments under SAB 118. Such adjustments were made during the

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September 2018 quarter as outlined below, incorporating new information into the estimates; we may make further adjustments as new information is made available. In addition, for significant items for which we could not make a reasonable estimate, no provisional activity was recorded. We will continue to refine the provisional balances and adjustments may be made under SAB 118 during the measurement period as a result of future changes in interpretation, information available, assumptions made by the Company and/or issuance of additional guidance; these adjustments could be material.

The below discussion around the provision for income taxes and effective tax rate are significantly impacted by U.S. tax reform.

Our provision for income taxes and effective tax rate for the periods indicated were as follows:

	Three Months Ended		
	September 23, 2018	June 24, 2018	September 24, 2017
	(in thousands, except percentages)		
Income tax expense (benefit)	$58,014	$(62,997)	$97,030
Effective tax rate	9.8 %	(6.6)%	14.1 %

The increase in the effective tax rate for the September 2018 quarter compared to the June 2018 quarter was primarily due to the impact of the GILTI provisions which are applicable beginning in fiscal year 2019 and the impact of an adjustment under SAB 118 to the U.S. tax reform mandated one-time transition tax on accumulated unrepatriated foreign earnings.

The decrease in the effective tax rate for the September 2018 quarter compared to the September 2017 quarter was primarily due to the reduction of the federal statutory tax rate from 35% to 21%.

International revenues account for a significant portion of our total revenues, such that a material portion of our pre-tax income is earned and taxed outside the United States at rates that are generally lower than in the United States. Please refer to Note 6 - Income Taxes of the notes to our Consolidated Financial Statements in our 2018 Form 10-K for additional information.

Uncertain Tax Positions

We reevaluate uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Any change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A critical accounting policy is defined as one that has both a material impact on our financial condition and results of operations and requires us to make difficult, complex and/or subjective judgments, often as a result of the need to make estimates about matters that are inherently uncertain. The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make certain judgments, estimates and assumptions that could affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates and assumptions on historical experience and on various other assumptions we believe to be applicable and evaluate them on an ongoing basis to ensure they remain reasonable under current conditions. Actual results could differ significantly from those estimates, which could have a material impact on our business, results of operations, and financial condition. Our critical accounting estimates include:

- the recognition and valuation of revenue from arrangements with multiple performance obligations which impacts revenue;
- the valuation of inventory, which impacts gross margin;
- the valuation of warranty reserves, which impacts gross margin;
- the recognition and measurement of current and deferred income taxes, including the measurement of uncertain tax positions, which impact our provision for income tax expenses; and
-

the valuation and recoverability of long-lived assets, which impacts gross margin and operating expenses when we record asset impairments or accelerate their depreciation or amortization.

We believe that the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements regarding the critical accounting estimates indicated above.

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Revenue Recognition: On June 25, 2018, we adopted FASB ASU No. 2014-09 (ASC 606) - Revenue From Contracts with Customers which provides guidance for revenue recognition that superseded the revenue recognition requirements in ASC 605, Revenue Recognition and most industry specific guidance. Refer to Note 3 - Revenue, of our Condensed Consolidated Financial Statements, included in Part 1 of this report, for a summary of our revenue recognition policy.

Inventory Valuation: Our policy is to assess the valuation of all inventories including manufacturing raw materials, work-in-process, finished goods, and spare parts in each reporting period. Obsolete inventory or inventory in excess of management's estimated usage requirement is written down to its estimated net realizable value if less than cost. Estimates of market value include but are not limited to management's forecasts related to our future manufacturing schedules, customer demand, technological and/or market obsolescence, general semiconductor market conditions, and possible alternative uses. If future customer demand or market conditions are less favorable than our projections, additional inventory write-downs may be required and would be reflected in cost of goods sold in the period in which we make the revision.

Warranty: We record a provision for estimated warranty expenses to cost of sales for each system when we recognize revenue. We periodically monitor the performance and cost of warranty activities, if actual costs incurred are different than our estimates, we may recognize adjustments to provisions in the period in which those differences arise or are identified. We do not maintain general or unspecified reserves; all warranty reserves are related to specific systems.

Income Taxes: Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the tax effect of carryforwards. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. In the event that we determine that we will not be able to realize all or part of our net deferred tax assets, an adjustment will be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the deferred tax assets will be realized, then the previously provided valuation allowance will be reversed.

We recognize the benefit from a tax position only if it is more likely than not that the position will be sustained upon audit based solely on the technical merits of the tax position. Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Long-lived Assets: We review goodwill at least annually for impairment. If certain events or indicators of impairment occur between annual impairment tests, we will perform an impairment test at that date. In testing for a potential impairment of goodwill, we: (1) allocate goodwill to the reporting units to which the acquired goodwill relates; (2) estimate the fair value of our reporting units; and (3) determine the carrying value (book value) of those reporting units. Prior to this allocation of the assets to the reporting units, we assess long-lived assets for impairment. Furthermore, if the estimated fair value of a reporting unit is less than the carrying value, we must estimate the fair value of all identifiable assets and liabilities of that reporting unit, in a manner similar to a purchase price allocation for an acquired business. This can require independent valuations of certain internally generated and unrecognized intangible assets such as in-process R&D and developed technology. Only after this process is completed can the amount of goodwill impairment, if any, be determined. In our goodwill impairment process we first assess qualitative factors to determine whether it is necessary to perform a quantitative analysis. We do not calculate the fair value of a reporting unit unless we determine, based on a qualitative assessment, that it is more likely than not that the reporting unit's fair value is less than its carrying amount.

The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. We determine the fair value of our reporting units by using an income approach. Under the income approach, we determine fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn.

In estimating the fair value of a reporting unit, we make estimates and judgments about the future cash flows of our reporting units, including estimated growth rates and assumptions about the economic environment. Although our cash flow forecasts are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying businesses, there is significant judgment involved in determining the cash flows attributable to a reporting unit. In addition, we make certain judgments about allocating shared assets to the estimated balance sheets of our reporting units. Changes in judgment on these assumptions and estimates could result in a goodwill impairment charge.

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As a result, several factors could result in an impairment of a material amount of our goodwill balance in future periods, including but not limited to: (1) weakening of the global economy, weakness in the semiconductor equipment industry, or our failure to reach internal forecasts, which could impact our ability to achieve our forecasted levels of cash flows and reduce the estimated discounted cash flow value of our reporting units; and (2) a decline in our Common Stock price and resulting market capitalization, to the extent we determine that the decline is sustained and indicates a reduction in the fair value of our reporting units below their carrying value. Further, the value assigned to intangible assets, other than goodwill, is based on estimates and judgments regarding expectations such as the success and lifecycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, we may be required to record an impairment charge to write down the asset to its realizable value.

For other long-lived assets, we routinely consider whether indicators of impairment are present. If such indicators are present, we determine whether the sum of the estimated undiscounted cash flows attributable to the assets is less than their carrying value. If the sum is less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. We recognize an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our condensed consolidated financial statements, see Note 2 - Recent Accounting Pronouncements, of our Condensed Consolidated Financial Statements, included in Part 1 of this report.

LIQUIDITY AND CAPITAL RESOURCES

Total gross cash and cash equivalents, investments, and restricted cash and investments (together comprising total cash and investments) were $3.9 billion at September 23, 2018 compared to $5.2 billion as of June 24, 2018. This decrease was primarily due to Common Stock repurchases in connection with our stock repurchase program.

Cash Flow from Operating Activities

Net cash provided by operating activities of $720 million during the three months ended September 23, 2018, consisted of (in millions):

Net income	$533.4
Non-cash charges:	
Depreciation and amortization	79.8
Equity-based compensation expense	50.3
Deferred income taxes	(83.5)
Amortization of note discounts and issuance costs	1.2
Changes in operating asset and liability accounts	136.8
Other	2.3
	$720.3

Significant changes in operating asset and liability accounts, net of foreign exchange impact, included the following sources of cash: decreases in accounts receivable of $340.0 million and increases in accrued expenses and other liabilities of $12.0 million. The sources of cash are offset by uses of cash from the following: decreases in trades accounts payable of $141.3 million and deferred profit of $17.1 million, along with increases in prepaid expense and other assets of $34.4 million and inventories of $22.4 million

Cash Flow from Investing Activities

Net cash used for investing activities during the three months ended September 23, 2018, was $672.3 million, primarily consisting of net purchases of available-for-sale securities of $612.6 million, and capital expenditures of $56.1 million.

Cash Flow from Financing Activities

Net cash used for financing activities during the three months ended September 23, 2018, was $2.0 billion, primarily consisting of $1.7 billion in treasury stock repurchases, $174.4 million in dividends paid, and $79.9 million of cash paid for debt repayment.

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Liquidity

Given that the semiconductor industry is highly competitive and has historically experienced rapid changes in demand, we believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in R&D and capital infrastructure. Anticipated cash flows from operations based on our current business outlook, combined with our current levels of cash, cash equivalents, and short-term investments as of September 23, 2018, are expected to be sufficient to support our anticipated levels of operations, investments, debt service requirements, capital expenditures, capital redistributions, and dividends through at least the next 12 months. However, uncertainty in the global economy and the semiconductor industry, as well as disruptions in credit markets, have in the past, and could in the future, impact customer demand for our products, as well as our ability to manage normal commercial relationships with our customers, suppliers, and creditors.

Under certain circumstances, our 2041 Notes may be converted and settled in cash and shares of our Common Stock. During the three months ended September 23, 2018, approximately $79.4 million principal value of convertible 2041 Notes were converted and in the subsequent period through October 19, 2018, we received notice of conversion of an additional $6 million principal value of 2041 Notes, which will settle in the quarter ending December 23, 2018. We expect to have sufficient levels of cash, cash equivalents, and short term investments to fund the near-term settlement of these Convertible Notes.

During the December 2017 quarter, a one-time transition tax on accumulated unrepatriated foreign earnings, estimated at $991 million, was recognized associated with the December 2017 U.S. tax reform. This value is identified as provisional in our Condensed Consolidated Financial Statements for the period ended September 23, 2018, and is subject to future measurement period adjustments under SAB 118. Such an adjustment was made during the June 2018 quarter and the September 2018 quarter, incorporating new information into the estimate; we may make further adjustments as new information is made available. The revised estimate is now $919.5 million. The Company elected to pay the one-time transition tax over a period of eight years with 8% of the transition tax to be paid each September 15 for years 2018 through 2022, and 15%, 20%, and 25%, respectively, to be paid each September 15 for years 2023 through 2025.

In the longer term, liquidity will depend to a great extent on our future revenues and our ability to appropriately manage our costs based on demand for our products and services. While we have substantial cash balances, we may require additional funding and need or choose to raise the required funds through borrowings or public or private sales of debt or equity securities. We believe that, if necessary, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, there can be no assurance that such funding will be available in needed quantities or on terms favorable to us.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

For financial market risks related to changes in interest rates, marketable equity security prices, and foreign currency exchange rates, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk”, in our 2018 Form 10-K. Other than noted below, our exposure related to market risk has not changed materially since June 24, 2018. All of the potential changes noted below are based on sensitivity analysis performed on our financial position as of September 23, 2018. Actual results may differ materially.

Fixed Income Securities

Our investments in various interest earning securities carry a degree of market risk for changes in interest rates. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates could have a material adverse impact on interest income for our investment portfolio. We target to maintain a conservative investment policy, which focuses on the safety and preservation of our capital by limiting default risk, market risk, reinvestment risk, and concentration risk.

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The following table presents the hypothetical fair values of fixed income securities that would result from selected potential decreases and increases in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS, and 150 BPS. The hypothetical fair values as of September 23, 2018, were as follows:

	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value as of September 23, 2018	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)	0.00%	50 BPS	100 BPS	150 BPS
	(in thousands)						
U.S. Treasury and agencies	$459,934	$459,620	$459,305	$458,991	$458,677	$458,362	$458,048
Municipal notes and bonds	153,944	153,215	152,486	151,758	151,029	150,300	149,572
Government-sponsored enterprises	11,058	10,978	10,898	10,818	10,739	10,659	10,579
Foreign government bonds	31,204	31,150	31,097	31,044	30,991	30,938	30,885
Bank and corporate notes	499,482	498,416	497,349	496,283	495,217	494,151	493,085
Mortgage backed securities - residential	790	775	759	744	728	712	697
Total	$1,156,412	$1,154,154	$1,151,894	$1,149,638	$1,147,381	$1,145,122	$1,142,866

We mitigate default risk by investing in high credit quality securities and by positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to achieve portfolio liquidity and maintain a prudent amount of diversification.

ITEM 4. Controls and Procedures

Design of Disclosure Controls and Procedures and Internal Control over Financial Reporting

We maintain disclosure controls and procedures and internal control over final reporting that are designed to comply with Rule 13a-15 of the Exchange Act. In designing and evaluating the controls and procedures associated with each, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and that the effectiveness of controls cannot be absolute because the cost to design and implement a control to identify errors or mitigate the risk of errors occurring should not outweigh the potential loss caused by the errors that would likely be detected by the control. Moreover, we believe that a control system cannot be guaranteed to be 100% effective all of the time. Accordingly, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

Disclosure Controls and Procedures

As required by Exchange Act Rule 13a-15(b), as of September 23, 2018, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer, along with our Chief Financial Officer, concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and to correct any material deficiencies that we may discover. Our goal is to ensure that our senior management has timely access to material information that could affect our business.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended September 23, 2018, we implemented certain controls over financial reporting in connection with our adoption of ASC 606, "Revenue from Contracts with Customers." There were no other changes in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Effectiveness of Controls

While we believe the present design of our disclosure controls and procedures and internal control over financial reporting is effective, future events affecting our business may cause us to modify our disclosure controls and procedures or internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

While we are not currently a party to any legal proceedings that we believe are material, we are either a defendant or plaintiff in various actions that have arisen from time to time in the normal course of business, including intellectual property claims. We accrue for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. Based on current information, we do not believe that a material loss from known matters is probable and therefore have not recorded an accrual for litigation or other contingencies related to existing legal proceedings.

ITEM 1A. Risk Factors

In addition to the other information in this Form 10-Q, the following risk factors should be carefully considered in evaluating us and our business because such factors may significantly impact our business, operating results, and financial condition. As a result of these risk factors, as well as other risks discussed in our other SEC filings, our actual results could differ materially from those projected in any forward-looking statements. No priority or significance is intended, nor should be attached, to the order in which the risk factors appear.

The Semiconductor Capital Equipment Industry Is Subject to Variability and Periods of Rapid Growth or Decline; We Therefore Face Risks Related to Our Strategic Resource Allocation Decisions

The semiconductor capital equipment industry has historically been characterized by rapid changes in demand. The industry environment has moved toward being more characterized by variability across segments and customers accentuated by consolidation within the industry. Variability in our customers' business plans may lead to changes in demand for our equipment and services, which could negatively impact our results. The variability in our customers' investments during any particular period is dependent on several factors, including but not limited to electronics demand, economic conditions (both general and in the semiconductor and electronics industries), industry supply and demand, prices for semiconductors, and our customers' ability to develop and manufacture increasingly complex and costly semiconductor devices. The changes in demand may require our management to adjust spending and other resources allocated to operating activities.

During periods of rapid growth or decline in demand for our products and services, we face significant challenges in maintaining adequate financial and business controls, management processes, information systems, and procedures for training, assimilating, and managing our workforce, and in appropriately sizing our supply chain infrastructure and facilities, work force, and other components of our business on a timely basis. If we do not adequately meet these challenges during periods of increasing or declining demand, our gross margins and earnings may be negatively impacted.

We continuously reassess our strategic resource allocation choices in response to the changing business environment. If we do not adequately adapt to the changing business environment, we may lack the infrastructure and resources to scale up our business to meet customer expectations and compete successfully during a period of growth, or we may expand our capacity too rapidly and/or beyond what is appropriate for the actual demand environment, resulting in excess fixed costs.

Especially during transitional periods, resource allocation decisions can have a significant impact on our future performance, particularly if we have not accurately anticipated industry changes. Our success will depend, to a significant extent, on the ability of our executive officers and other members of our senior management to identify and respond to these challenges effectively.

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Future Declines in the Semiconductor Industry, and the Overall World Economic Conditions on Which It Is Significantly Dependent, Could Have a Material Adverse Impact on Our Results of Operations and Financial Condition

Our business depends on the capital equipment expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits. With the consolidation of customers within the industry, the semiconductor capital equipment market may experience rapid changes in demand driven both by changes in the market generally and the plans and requirements of particular customers. The economic, political, and business conditions occurring nationally, globally, or in any of our key sales regions, which are often unpredictable, have historically impacted customer demand for our products and normal commercial relationships with our customers, suppliers, and creditors. Additionally, in times of economic uncertainty, our customers' budgets for our products, or their ability to access credit to purchase them, could be adversely affected. This would limit their ability to purchase our products and services. As a result, changing business or economic conditions can cause material adverse changes to our results of operations and financial condition, including but not limited to:

- a decline in demand for our products or services;
- an increase in reserves on accounts receivable due to our customers' inability to pay us;
- an increase in reserves on inventory balances due to excess or obsolete inventory as a result of our inability to sell such inventory;
- valuation allowances on deferred tax assets;
- restructuring charges;
- asset impairments including the potential impairment of goodwill and other intangible assets;
- a decline in the value of our investments;
- exposure to claims from our suppliers for payment on inventory that is ordered in anticipation of customer purchases that do not come to fruition;
- a decline in the value of certain facilities we lease to less than our residual value guarantee with the lessor; and
- challenges maintaining reliable and uninterrupted sources of supply.

Fluctuating levels of investment by semiconductor manufacturers may materially affect our aggregate shipments, revenues, operating results, and earnings. Where appropriate, we will attempt to respond to these fluctuations with cost management programs aimed at aligning our expenditures with anticipated revenue streams, which sometimes result in restructuring charges. Even during periods of reduced revenues, we must continue to invest in R&D and maintain extensive ongoing worldwide customer service and support capabilities to remain competitive, which may temporarily harm our profitability and other financial results.

Our Quarterly Revenues and Operating Results Are Variable

Our revenues and operating results may fluctuate significantly from quarter to quarter due to a number of factors, not all of which are in our control. We manage our expense levels based in part on our expectations of future revenues. Because our operating expenses are based in part on anticipated future revenues, and a certain amount of those expenses are relatively fixed, a change in the timing of recognition of revenue and/or the level of gross profit from a small number of transactions can unfavorably affect operating results in a particular quarter. Factors that may cause our financial results to fluctuate unpredictably include but are not limited to:

- economic conditions in the electronics and semiconductor industries in general and specifically the semiconductor equipment industry;
- the size and timing of orders from customers;
- consolidation of the customer base, which may result in the investment decisions of one customer or market having a significant effect on demand for our products or services;
- procurement shortages;
- the failure of our suppliers or outsource providers to perform their obligations in a manner consistent with our expectations;
- manufacturing difficulties;
- customer cancellations or delays in shipments, installations, and/or customer acceptances;

- the extent that customers continue to purchase and use our products and services in their business;
- our customers' reuse of existing and installed products, to the extent that such reuse decreases their need to purchase new products or services;
- changes in average selling prices, customer mix, and product mix;
- our ability to develop, introduce, and market new, enhanced, and competitive products in a timely manner;
- our competitors' introduction of new products;
- legal or technical challenges to our products and technologies;

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- transportation, communication, demand, information technology, or supply disruptions based on factors outside our control, such as strikes, acts of God, wars, terrorist activities, and natural or man-made disasters;
- legal, tax, accounting, or regulatory changes (including but not limited to change in import/export regulations and tariffs) or changes in the interpretation or enforcement of existing requirements;
- changes in our estimated effective tax rate;
- foreign currency exchange rate fluctuations; and
- the dilutive impact of our Convertible Notes (as defined below) and related warrants on our earnings per share.

We May Incur Impairments to Goodwill or Long-lived Assets

We review our long-lived assets, including goodwill and intangible assets identified in business combinations and other intangible assets, for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Negative industry or economic trends, including reduced market prices of our Common Stock, reduced estimates of future cash flows, disruptions to our business, slower growth rates, or lack of growth in our relevant business units, could lead to impairment charges against our long-lived assets, including goodwill and other intangible assets. If, in any period, our stock price decreases to the point where our fair value, as determined by our market capitalization, is less than the book value of our assets, this could also indicate a potential impairment, and we may be required to record an impairment charge in that period, which could adversely affect our result of operations.

Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. We operate in a highly competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis indicates potential impairment to goodwill in one or more of our business units, we may be required to record additional charges to earnings in our financial statements, which could negatively affect our results of operations.

Our Leverage and Debt Service Obligations and Potential Note Conversion or Related Hedging Activities May Adversely Affect Our Financial Condition, Results of Operations, and Earnings per Share

We have $2.4 billion in aggregate principal amount of senior unsecured notes, convertible notes, and commercial paper instruments outstanding. Additionally, we have funding available to us under our $1.25 billion commercial paper program and our $1.25 billion revolving credit facility, which serves as a backstop to our commercial paper program. Our revolving credit facility also includes an option to increase the amount up to an additional $600 million, for a potential total commitment of $1.85 billion. We may, in the future, decide to enter into additional debt arrangements.

In addition, we have entered, and in the future may enter, into derivative instrument arrangements to hedge against the variability of cash flows due to changes in the benchmark interest rate of fixed rate debt. We could be exposed to losses in the event of nonperformance by the counterparties to our derivative instruments.

Our indebtedness could have adverse consequences, including:

- risk associated with any inability to satisfy our obligations;
- a portion of our cash flows that may have to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions, or general corporate or other purposes; and
- impairing our ability to obtain additional financing in the future.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory, and other factors. Furthermore, our operations may not generate sufficient cash flows to enable us to meet our expenses and service our debt. As a result, we may need to enter into new financing arrangements to obtain the necessary funds. If we determine it is necessary to seek additional funding for any reason, we may not be able to obtain such funding or, if funding is available, obtain it on acceptable terms. If we fail to make a payment on our debt, we could be in default on such debt, and this default could cause us to be in default on our other outstanding indebtedness.

Conversion of our Convertible Notes and the exercise of warrants may cause dilution to our stockholders and to our earnings per share. The number of shares of our Common Stock into which the Convertible Notes are convertible and for which the warrants are exercisable for may be adjusted from time to time, including increases in such rates as a result of dividends that we pay to our stockholders. Upon conversion of any Convertible Notes, we will deliver cash in the amount of the principal amount of the Convertible Notes and, with respect to any excess conversion value greater than the principal amount of the Convertible Notes, shares of our Common Stock, which would result in dilution to our stockholders. Prior to the maturity of the Convertible Notes, if the price of our Common Stock exceeds the conversion price, U.S. generally accepted accounting principles require that we report an increase in diluted share count, which would result in lower reported earnings per share. The price of our

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Common Stock could also be affected by sales of our Common Stock by investors who view the Convertible Notes as a more attractive means of equity participation in our company and also by hedging activity that may develop involving our Common Stock by holders of the Convertible Notes.

Our Credit Agreements Contain Covenant Restrictions That May Limit Our Ability to Operate Our Business

We may be unable to respond to changes in business and economic conditions, engage in transactions that might otherwise be beneficial to us, or obtain additional financing because our debt agreements contain, and any of our other future similar agreements may contain, covenant restrictions that limit our ability to, among other things:

- incur additional debt, assume obligations in connection with letters of credit, or issue guarantees;
- create liens;
- enter into transactions with our affiliates;
- sell certain assets; and
- merge or consolidate with any person.

Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. In addition, our failure to comply with these covenants could result in a default under the Senior Notes, the Convertible Notes, or our other debt, which could permit the holders to accelerate such debt. If any of our debt is accelerated, we may not have sufficient funds available to repay such debt, which could materially and negatively affect our financial condition and results of operation.

We Have a Limited Number of Key Customers

Sales to a limited number of large customers constitute a significant portion of our overall revenue, shipments, cash flows, collections, and profitability. As a result, the actions of even one customer may subject us to variability in those areas that is difficult to predict. In addition, large customers may be able to negotiate requirements that result in decreased pricing, increased costs, and/or lower margins for us; compliance with specific environmental, social, and corporate governance standards; and limitations on our ability to share jointly developed technology with others. Similarly, significant portions of our credit risk may, at any given time, be concentrated among a limited number of customers so that the failure of even one of these key customers to pay its obligations to us could significantly impact our financial results.

We Depend on Creating New Products and Processes and Enhancing Existing Products and Processes for Our Success. Consequently, We Are Subject to Risks Associated with Rapid Technological Change

Rapid technological changes in semiconductor manufacturing processes subject us to increased pressure to develop technological advances that enable those processes. We believe that our future success depends in part upon our ability to develop and offer new products with improved capabilities and to continue to enhance our existing products. If new products or existing products have reliability, quality, design, or safety problems, our performance may be impacted by reduced orders, higher manufacturing costs, delays in acceptance of and payment for new products, and additional service and warranty expenses. We may be unable to develop and manufacture products successfully, or products that we introduce may fail in the marketplace. For more than 25 years, the primary driver of technology advancement in the semiconductor industry has been to shrink the lithography that prints the circuit design on semiconductor chips. That driver could be approaching its technological limit, leading semiconductor manufacturers to investigate more complex changes in multiple technologies in an effort to continue technology development. In the face of uncertainty on which technology solutions will become successful, we will need to focus our efforts on developing the technology changes that are ultimately successful in supporting our customer requirements. Our failure to develop and offer the correct technology solutions in a timely manner with productive and cost-effective products could adversely affect our business in a material way. Our failure to commercialize new products in a timely manner could result in loss of market share, unanticipated costs, and inventory obsolescence, which would adversely affect our financial results.

In order to develop new products and processes and enhance existing products and processes, we expect to continue to make significant investments in R&D, to investigate the acquisition of new products and technologies, to invest in or acquire such business or technologies, and to pursue joint development relationships with customers, suppliers, or

other members of the industry. Our investments and acquisitions may not be as successful as we may expect, particularly as we seek to invest or acquire product lines and technologies that are new to us. We may find that acquisitions are not available to us, for regulatory or other reasons, and that we must therefore limit ourselves to collaboration and joint venture development activities, which do not have the same benefits as acquisitions. Pursuing development through collaboration and/or joint development activities rather than through an acquisition poses substantial challenges for management, including those related to aligning business objectives, sharing confidential information and intellectual property, sharing value with third parties, and realizing synergies that might have been available in an acquisition but are not available through a joint development project. We must manage

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product transitions and joint development relationships successfully, as the introduction of new products could adversely affect our sales of existing products and certain jointly developed technologies may be subject to restrictions on our ability to share that technology with other customers, which could limit our market for products incorporating those technologies. Future technologies, processes, or product developments may render our current product offerings obsolete, leaving us with non-competitive products, obsolete inventory, or both. Moreover, customers may adopt new technologies or processes to address the complex challenges associated with next-generation devices. This shift may result in a reduction in the size of our addressable markets or could increase the relative size of markets in which we either do not compete or have relatively low market share.

We Are Subject to Risks Relating to Product Concentration and Lack of Product Revenue Diversification

We derive a substantial percentage of our revenues from a limited number of products. Our products are priced up to approximately $11 million per system. As a result, the inability to recognize revenue on even a few systems can cause a significantly adverse impact on our revenues for a given quarter, and, in the longer term, the continued market acceptance of these products is critical to our future success. Our business, operating results, financial condition, and cash flows could therefore be adversely affected by:

- a decline in demand for even a limited number of our products,
- a failure to achieve continued market acceptance of our key products,
- export restrictions or other regulatory or legislative actions that could limit our ability to sell those products to key customers or customers within certain markets,
- an improved version of products being offered by a competitor in the markets in which we participate,
- increased pressure from competitors that offer broader product lines,
- technological changes that we are unable to address with our products, or
- a failure to release new or enhanced versions of our products on a timely basis.

In addition, the fact that we offer limited product lines creates the risk that our customers may view us as less important to their business than our competitors that offer additional products and/or product capabilities. This may impact our ability to maintain or expand our business with certain customers. Such product concentration may also subject us to additional risks associated with technology changes. Our business is affected by our customers' use of our products in certain steps in their wafer fabrication processes. Should technologies change so that the manufacture of semiconductors requires fewer steps using our products, this could have a larger impact on our business than it would on the business of our less concentrated competitors.

Strategic Alliances and Customer Consolidation May Have Negative Effects on Our Business

Increasingly, semiconductor manufacturing companies are entering into strategic alliances or consolidating with one another to expedite the development of processes and other manufacturing technologies and/or achieve economies of scale. The outcomes of such an alliance can be the definition of a particular tool set for a certain function and/or the standardization of a series of process steps that use a specific set of manufacturing equipment, while the outcomes of consolidation can lead to an overall reduction in the market for semiconductor manufacturing equipment as customers' operations achieve economies of scale and/or increased purchasing power based on their higher volumes. In certain instances, this could work to our disadvantage if a competitor's tools or equipment become the standard equipment for such functions or processes. Additional outcomes of such consolidation may include our customers re-evaluating their future supplier relationships to consider our competitors' products and/or gaining additional influence over the pricing of products and the control of intellectual property.

Similarly, our customers may partner with, or follow the lead of, educational or research institutions that establish processes for accomplishing various tasks or manufacturing steps. If those institutions utilize a competitor's equipment when they establish those processes, it is likely that customers will tend to use the same equipment in setting up their own manufacturing lines. Even if they select our equipment, the institutions and the customers that follow their lead could impose conditions on acceptance of that equipment, such as adherence to standards and requirements or limitations on how we license our proprietary rights, that increase our costs or require us to take on greater risk. These actions could adversely impact our market share and financial results.

We Depend on a Limited Number of Key Suppliers and Outsource Providers, and We Run the Risk That They Might Not Perform as We Expect

Outsource providers and component suppliers have played and will continue to play a key role in our manufacturing operations, field installation and support, and many of our transactional and administrative functions, such as information technology, facilities management, and certain elements of our finance organization. These providers and suppliers might suffer financial setbacks, be acquired by third parties, become subject to exclusivity arrangements that preclude further business with us, or be unable to meet our requirements or expectation due to their independent business decisions or *force majeure* events that could interrupt or impair their continued ability to perform as we expect.

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Although we attempt to select reputable providers and suppliers and we attempt to secure their performance on terms documented in written contracts, it is possible that one or more of these providers or suppliers could fail to perform as we expect, or fail to secure or protect intellectual property rights, and such failure could have an adverse impact on our business. In some cases, the requirements of our business mandate that we obtain certain components and sub-assemblies included in our products from a single supplier or a limited group of suppliers. Where practical, we endeavor to establish alternative sources to mitigate the risk that the failure of any single provider or supplier will adversely affect our business, but this is not feasible in all circumstances. There is therefore a risk that a prolonged inability to obtain certain components or secure key services could impair our ability to manage operations, ship products, and generate revenues, which could adversely affect our operating results and damage our customer relationships.

We Face Risks Related to the Disruption of Our Primary Manufacturing Facilities

Our manufacturing facilities are concentrated in a limited number of locations. These locations are subject to disruption for a variety of reasons, such as natural or man-made disasters, terrorist activities, disruptions of our information technology resources, utility interruptions, or other events beyond our control. Such disruptions may cause delays in shipping our products, which could result in the loss of business or customer trust, adversely affecting our business and operating results.

Once a Semiconductor Manufacturer Commits to Purchase a Competitor's Semiconductor Manufacturing Equipment, the Manufacturer Typically Continues to Purchase That Competitor's Equipment, Making It More Difficult for Us to Sell Our Equipment to That Customer

Semiconductor manufacturers must make a substantial investment to qualify and integrate wafer processing equipment into a semiconductor production line. We believe that once a semiconductor manufacturer selects a particular supplier's processing equipment, the manufacturer generally relies upon that equipment for that specific production line application for an extended period of time, especially for customers that are more focused on tool reuse. Accordingly, we expect it to be more difficult to sell our products to a given customer if that customer initially selects a competitor's equipment for the same product line application.

We Face a Challenging and Complex Competitive Environment

We face significant competition from multiple competitors, and with increased consolidation efforts in our industry, we may face increasing competitive pressures. Other companies continue to develop systems and/or acquire businesses and products that are competitive to ours and may introduce new products and product capabilities that may affect our ability to sell and support our existing products. We face a greater risk if our competitors enter into strategic relationships with leading semiconductor manufacturers covering products similar to those we sell or may develop, as this could adversely affect our ability to sell products to those manufacturers.

We believe that to remain competitive we must devote significant financial resources to offer products that meet our customers' needs, to maintain customer service and support centers worldwide, and to invest in product and process R&D. Certain of our competitors, including those that are created and financially backed by foreign governments, have substantially greater financial resources and more extensive engineering, manufacturing, marketing, and customer service and support resources than we do and therefore have the potential to offer customers a more comprehensive array of products and/or product capabilities and to therefore achieve additional relative success in the semiconductor equipment industry. These competitors may deeply discount or give away products similar to those that we sell, challenging or even exceeding our ability to make similar accommodations and threatening our ability to sell those products. We also face competition from our own customers, who in some instances have established affiliated entities that manufacture equipment similar to ours. In addition, we face competition from companies that exist in a more favorable legal or regulatory environment than we do, allowing the freedom of action in ways that we may be unable to match. In many cases speed to solution is necessary for customer satisfaction and our competitors may be better positioned to achieve these objectives. For these reasons, we may fail to continue to compete successfully worldwide.

In addition, our competitors may be able to develop products comparable or superior to those we offer or may adapt more quickly to new technologies or evolving customer requirements. In particular, while we continue to develop

product enhancements that we believe will address future customer requirements, we may fail in a timely manner to complete the development or introduction of these additional product enhancements successfully, or these product enhancements may not achieve market acceptance or be competitive. Accordingly, competition may intensify, and we may be unable to continue to compete successfully in our markets, which could have a material adverse effect on our revenues, operating results, financial condition, and/or cash flows.

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Our Future Success Depends Heavily on International Sales and the Management of Global Operations

Non-U.S. sales, as reflected in Part 1 Item 1. Business, accounted for approximately 95%, 93%, and 92% of total revenue in the three months ended September 23, 2018 and fiscal years 2018, and 2017, respectively. We expect that international sales will continue to account for a substantial majority of our total revenue in future years.

We are subject to various challenges related to international sales and the management of global operations including but not limited to:

- trade balance issues;
- tariffs and other barriers;
- developing customers and/or suppliers, whom may have limited access to capital resources;
- global or national economic and political conditions;
- changes in currency controls;
- differences in the enforcement of intellectual property and contract rights in varying jurisdictions;
- our ability to respond to customer and foreign government demands for locally sourced systems, spare parts, and services and develop the necessary relationships with local suppliers;
- compliance with U.S. and international laws and regulations affecting foreign operations, including U.S. and international trade restrictions and sanctions, anti-bribery, anti-corruption, environmental, tax, and labor laws;
- fluctuations in interest and foreign currency exchange rates;
- the need for technical support resources in different locations; and
- our ability to secure and retain qualified people, and effectively manage people, in all necessary locations for the successful operation of our business.

There is inherent risk, based on the complex relationships among China, Japan, Korea, Taiwan, and the United States, that political and diplomatic influences might lead to trade disruptions. This would adversely affect our business with China, Japan, Korea, and/or Taiwan and perhaps the entire Asia Pacific region. A significant trade disruption in any area where we do business could have a materially adverse impact on our future revenue and profits. Tariffs, additional taxes or trade barriers may increase our manufacturing costs, decrease margins, reduce the competitiveness of our products, or inhibit our ability to sell products or purchase necessary equipment and supplies, which could have a material adverse effect on our business, results of operations, or financial conditions. In addition, there are risks that foreign governments may, among other things, insist on the use of local suppliers; compel companies to partner with local companies to design and supply equipment on a local basis, requiring the transfer of intellectual property rights and/or local manufacturing; and provide special incentives to government-backed local customers to buy from local competitors, even if their products are inferior to ours; all of which could adversely impact our revenues and margins. Certain international sales depend on our ability to obtain export licenses from the U.S. government. Our failure or inability to obtain such licenses could potentially limit our markets and impact our revenues. Many of the challenges noted above are applicable in China, which is a fast developing market for the semiconductor equipment industry and therefore an area of anticipated growth for our business.

We are exposed to potentially adverse movements in foreign currency exchange rates. The majority of our sales and expenses are denominated in U.S. dollars. However, we are exposed to foreign currency exchange rate fluctuations primarily related to revenues denominated in Japanese yen and expenses denominated in euro and Korean won. Currently, we hedge certain anticipated foreign currency cash flows, primarily anticipated revenues denominated in Japanese yen and expenses dominated in euro and Korean won. In addition, we enter into foreign currency hedge contracts to minimize the short-term impact of the foreign currency exchange rate fluctuations on certain foreign currency denominated monetary assets and liabilities, primarily third-party accounts receivables, accounts payables, and intercompany receivables and payables. We believe these are our primary exposures to currency rate fluctuation. We expect to continue to enter into hedging transactions, for the purposes outlined, for the foreseeable future. However, these hedging transactions may not achieve their desired effect because differences between the actual timing of the underlying exposures and our forecasts of those exposures may leave us either over or under hedged on any given transaction. Moreover, by hedging these foreign currency denominated revenues, expenses, monetary assets, and liabilities, we may miss favorable currency trends that would have been advantageous to us but for the

hedges. Additionally, we are exposed to short-term foreign currency exchange rate fluctuations on non-U.S. dollar-denominated monetary assets and liabilities (other than those currency exposures previously discussed), and currently we do not enter into foreign currency hedge contracts against these exposures. Therefore, we are subject to potential unfavorable foreign currency exchange rate fluctuations to the extent that we transact business (including intercompany transactions) in these currencies.

The magnitude of our overseas business also affects where our cash is generated. Certain uses of cash, such as share repurchases, payment of dividends, or the repayment of our notes, can usually only be made with onshore cash balances. Since the majority of our cash is generated outside of the United States, this may impact certain business decisions and outcomes.

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Our Ability to Attract, Retain, and Motivate Key Employees Is Critical to Our Success

Our ability to compete successfully depends in large part on our ability to attract, retain, and motivate key employees with the appropriate skills, experiences and competencies. This is an ongoing challenge due to intense competition for top talent, fluctuations in industry or business economic conditions, as well as increasing geographic expansion that may require cycles of hiring activity and workforce reductions. Our success in hiring depends on a variety of factors, including the attractiveness of our compensation and benefit programs, global economic or political and industry conditions, our organizational structure, global competition for talent and the availability of qualified employees, the availability of career development opportunities, the ability to obtain necessary authorizations for workers to provide services outside their home countries, and our ability to offer a challenging and rewarding work environment. We periodically evaluate our overall compensation and benefit programs and make adjustments, as appropriate, to maintain or enhance their competitiveness. If we are not able to successfully attract, retain, and motivate key employees, we may be unable to capitalize on market opportunities and our operating results may be materially and adversely affected.

Certain Critical Information Systems, That We Rely on for the Operation of Our Business, and Products That We Sell Are Susceptible to Cybersecurity and Other Threats or Incidents

We maintain and rely upon certain critical information systems for the effective operation of our business. These information systems include but are not limited to, telecommunications, the Internet, our corporate intranet, various computer hardware and software applications, (some of which may be integrated into the products that we sell or be required in order to provide the services that we offer), network communications, and email. These information systems may be owned and maintained by us, our outsourced providers, or third parties such as vendors, contractors, and Cloud providers. In addition, we make use of Software-As-A-Service (SAAS) products for certain important business functions that are provided by third parties and hosted on their own networks and servers, or third party networks and servers, all of which rely on networks, email and/or the Internet for their function. All of these information systems are subject to disruption, breach or failure from various sources, including those using techniques that change frequently or may be disguised or difficult to detect, or designed to remain dormant until a triggering event, or that may continue undetected for an extended period of time. Those sources may include mistakes or unauthorized actions by our employees or contractors; phishing schemes and other third-party attacks, and degradation or loss of service or access to our data due to viruses, malware, denial of service attacks, destructive or inadequate code, power failures, and physical damage to computers, hard drives, communication lines, and networking equipment.

We have experienced cyber threats and incidents in the past. Although past threats and incidents have not resulted in a material adverse effect, we may incur material losses related to cyber threats or incidents in the future. If we were subject to a cyber incident, it could have a material adverse effect on our business. Such adverse effects might include:

- Loss of (or inability to access, e.g. through ransomware) confidential and/or sensitive information stored on these critical information systems or transmitted to or from those systems;
- The disruption of the proper function of our products, services and/or operations;
- The failure of our or our customers' manufacturing processes;
- Errors in the output of our work or our customers' work;
- The loss or public exposure of the personal information of our employees or customers;
- The public release of customer orders, financial and business plans, and operational results;
- Exposure to claims from third parties who are adversely impacted by such incidents;
- Misappropriation or theft of Company, customer, supplier, or other's assets or resources, and costs associated therewith;
- Diminution in the value of Lam's investment in research, development and engineering; or
- Our failure to meet, or violation of, regulatory or other legal obligations, such as the timely publication or filing of financial statements, tax information and other required communications.

While we have implemented ISO 27001 compliant security procedures and virus protection software, intrusion prevention systems, identity and access control, and emergency recovery processes, and we carefully select our third-party providers of information systems, to mitigate risks to the information systems that we rely on, those mitigation and protection systems cannot be guaranteed to be fail-safe and we may still suffer cyber-related incidents.

Our Financial Results May Be Adversely Impacted by Higher than Expected Tax Rates or Exposure to Additional Tax Liabilities

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. We are subject to income taxes in the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. Our effective tax rate could be adversely affected by changes in the split of earnings between countries with differing statutory tax rates, in the valuation allowance of deferred tax

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assets, in tax laws, by material audit assessments, or changes in or expirations of agreements with tax authorities. These factors could affect our profitability. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability.

A Failure to Comply with Environmental Regulations May Adversely Affect Our Operating Results

We are subject to a variety of domestic and international governmental regulations related to the handling, discharge, and disposal of toxic, volatile, or otherwise hazardous chemicals. Failure to comply with present or future environmental regulations could result in fines being imposed on us, require us to suspend production, and/or cease operations, or cause our customers to not accept our products. These regulations could require us to alter our current operations, acquire significant additional equipment, incur substantial other expenses to comply with environmental regulations, or take other actions. Any failure to comply with regulations governing the use, handling, sale, transport, or disposal of hazardous substances could subject us to future liabilities that may adversely affect our operating results, financial condition, and ability to operate our business.

If We Choose to Acquire or Dispose of Businesses, Product Lines, and Technologies, We May Encounter Unforeseen Costs and Difficulties That Could Impair Our Financial Performance

An important element of our management strategy is to review acquisition prospects that would complement our existing products, augment our market coverage and distribution ability, or enhance our technological capabilities. As a result, we may seek to make acquisitions of complementary companies, products, or technologies, or we may reduce or dispose of certain product lines or technologies that no longer fit our long-term strategies. For regulatory or other reasons, we may not be successful in our attempts to acquire or dispose of businesses, products, or technologies, resulting in significant financial costs, reduced or lost opportunities, and diversion of management's attention. Managing an acquired business, disposing of product technologies, or reducing personnel entails numerous operational and financial risks, including difficulties in assimilating acquired operations and new personnel or separating existing business or product groups, diversion of management's attention away from other business concerns, amortization of acquired intangible assets, adverse customer reaction to our decision to cease support for a product, and potential loss of key employees or customers of acquired or disposed operations. There can be no assurance that we will be able to achieve and manage successfully any such integration of potential acquisitions, disposition of product lines or technologies, or reduction in personnel or that our management, personnel, or systems will be adequate to support continued operations. Any such inabilities or inadequacies could have a material adverse effect on our business, operating results, financial condition, and/or cash flows.

In addition, any acquisition could result in changes such as potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, the amortization of related intangible assets, and goodwill impairment charges, any of which could materially adversely affect our business, financial condition, results of operations, cash flows, and/or the price of our Common Stock.

The Market for Our Common Stock Is Volatile, Which May Affect Our Ability to Raise Capital or Make Acquisitions or May Subject Our Business to Additional Costs

The market price for our Common Stock is volatile and has fluctuated significantly over the past years. The trading price of our Common Stock could continue to be highly volatile and fluctuate widely in response to a variety of factors, many of which are not within our control or influence. These factors include but are not limited to the following:

- general market, semiconductor, or semiconductor equipment industry conditions;
- economic or political events, trends, and unexpected developments occurring nationally, globally, or in any of our key sales regions;
- variations in our quarterly operating results and financial condition, including our liquidity;
- variations in our revenues, earnings, or other business and financial metrics from forecasts by us or securities analysts or from those experienced by other companies in our industry;
-

announcements of restructurings, reductions in force, departure of key employees, and/or consolidations of operations;
- government regulations;
- developments in, or claims relating to, patent or other proprietary rights;
- technological innovations and the introduction of new products by us or our competitors;
- commercial success or failure of our new and existing products;
- disruptions of relationships with key customers or suppliers; or
- dilutive impacts of our Convertible Notes and related warrants.

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In addition, the stock market experiences significant price and volume fluctuations. Historically, we have witnessed significant volatility in the price of our Common Stock due in part to the price of and markets for semiconductors. These and other factors have and may again adversely affect the price of our Common Stock, regardless of our actual operating performance. In the past, following volatile periods in the price of their stock, many companies became the object of securities class action litigation. If we are sued in a securities class action, we could incur substantial costs, and it could divert management's attention and resources and have an unfavorable impact on our financial performance and the price for our Common Stock.

Intellectual Property, Indemnity, and Other Claims Against Us Can Be Costly and We Could Lose Significant Rights That Are Necessary to Our Continued Business and Profitability

Third parties may assert infringement, unfair competition, product liability, breach of contract, or other claims against us. From time to time, other persons send us notices alleging that our products infringe their patent or other intellectual property rights. In addition, law enforcement authorities may seek criminal charges relating to intellectual property or other issues. We also face risks of claims arising from commercial and other relationships. In addition, our bylaws and other indemnity obligations provide that we will indemnify officers and members of our Board of Directors against losses that they may incur in legal proceedings resulting from their service to us. From time to time, in the normal course of business, we indemnify third parties with whom we enter into contractual relationships, including customers and suppliers, with respect to certain matters. We have agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that our products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. In such cases, it is our policy either to defend the claims or to negotiate licenses or other settlements on commercially reasonable terms. However, we may be unable in the future to negotiate necessary licenses or reach agreement on other settlements on commercially reasonable terms, or at all, and any litigation resulting from these claims by other parties may materially adversely affect our business and financial results, and we may be subject to substantial damage awards and penalties. Moreover, although we have insurance to protect us from certain claims and cover certain losses to our property, such insurance may not cover us for the full amount of any losses, or at all, and may be subject to substantial exclusions and deductibles.

We May Fail to Protect Our Critical Proprietary Technology Rights, Which Could Affect Our Business

Our success depends in part on our proprietary technology and our ability to protect key components of that technology through patents, copyrights, and trade secret protection. Protecting our key proprietary technology helps us to achieve our goals of developing technological expertise and new products and systems that give us a competitive advantage; increasing market penetration and growth of our installed base; and providing comprehensive support and service to our customers. As part of our strategy to protect our technology, we currently hold a number of U.S. and foreign patents and pending patent applications, and we keep certain information, processes, and techniques as trade secrets. However, other parties may challenge or attempt to invalidate or circumvent any patents the U.S. or foreign governments issue to us; these governments may fail to issue patents for pending applications; or we may lose trade secret protection over valuable information due to the intentional or unintentional actions or omissions of third parties, of ours, or even of our own employees. Additionally, intellectual property litigation can be expensive and time-consuming and even when patents are issued or trade secret processes are followed, the legal systems in certain of the countries in which we do business do not enforce patents and other intellectual property rights as rigorously as the United States. The rights granted or anticipated under any of our patents, pending patent applications, or trade secrets may be narrower than we expect or, in fact, provide no competitive advantages. Moreover, because we determine the jurisdictions in which to file patents at the time of filing, we may not have adequate protection in the future based on such previous decisions. Any of these circumstances could have a material adverse impact on our business.

We Are Exposed to Various Risks from Our Regulatory Environment

We are subject to various risks related to (1) new, different, inconsistent, or even conflicting laws, rules, and regulations that may be enacted by legislative bodies and/or regulatory agencies in the countries that we operate;

(2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules, and regulations. As a public company with global operations, we are subject to the laws of multiple jurisdictions and the rules and regulations of various governing bodies, including those related to financial and other disclosures, corporate governance, privacy, anti-corruption, such as the Foreign Corrupt Practices Act and other local laws prohibiting corrupt payments to governmental officials, conflict minerals or other social responsibility legislation, immigration or travel regulations, and antitrust regulations, among others. Each of these laws, rules, and regulations imposes costs on our business, including financial costs and potential diversion of our management’s attention associated with compliance, and may present risks to our business, including potential fines, restrictions on our actions, and reputational damage if we are unable to fully comply.

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To maintain high standards of corporate governance and public disclosure, we intend to invest all reasonably necessary resources to comply with all evolving standards. Changes in or ambiguous interpretations of laws, regulations, and standards may create uncertainty regarding compliance matters. Efforts to comply with new and changing regulations have resulted in, and are likely to continue to result in, increased selling, general, and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If we are found by a court or regulatory agency not to be in compliance with the laws and regulations, our business, financial condition, and/or results of operations could be adversely affected.

There Can Be No Assurance That We Will Continue to Declare Cash Dividends or Repurchase Our Shares at All or in Any Particular Amounts

Our Board of Directors has declared quarterly dividends since April 2014. Our intent to continue to pay quarterly dividends and to repurchase our shares is subject to capital availability and periodic determinations by our Board of Directors that cash dividends and share repurchases are in the best interest of our stockholders and are in compliance with all laws and agreements applicable to the declaration and payment of cash dividends by us. Future dividends and share repurchases may also be affected by, among other factors, our views on potential future capital requirements for investments in acquisitions and the funding of our research and development; legal risks; changes in federal, state, and international income tax laws or corporate laws; contractual restrictions, such as financial or operating covenants in our debt arrangements; availability of onshore cash flow; and changes to our business model. Our dividend payments and share repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends or repurchase shares at all or in any particular amounts. A reduction or suspension in our dividend payments or share repurchases could have a negative effect on the price of our Common Stock.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Company Shares

In March 2018, the Board of Directors authorized the Company to repurchase up to an additional $2.0 billion of Common Stock. The new authorization increased the share repurchase authorization granted in November 2017 to an aggregate of $4.0 billion of Common Stock, and supplements the remaining balances from any prior authorizations. These repurchases can be conducted on the open market or as private purchases and may include the use of derivative contracts with large financial institutions, in all cases subject to compliance with applicable law. Repurchases will be funded using our cash, cash generation, and available credit facilities. This repurchase program has no termination date and may be suspended or discontinued at any time.

Share repurchases, including those under the repurchase program, were as follows:

	Total Number of Shares Repurchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Amount Available Under Repurchase Program
	(in thousands, except per share data)			
Amount available at June 24, 2018				$1,733,638
June 25, 2018 - July 22, 2018	5	$ 174.64	—	1,733,638
July 23, 2018 - August 19, 2018	7,810	$ 183.54	7,807	108
August 20, 2018 - September 23, 2018	6	$ 163.80	—	108
Quarter ended September 23, 2018	7,821	$ 183.46	7,807	$108

(1) During the three months ended September 23, 2018, we acquired 14 thousand shares at a total cost of $2.4 million, which we withheld through net share settlements to cover minimum tax withholding obligations upon the vesting of restricted stock unit awards granted under our equity compensation plans. The shares retained by us through these net share settlements are not a part of the Board-authorized repurchase program but instead are authorized under our equity compensation plan.

(2) Average price paid per share excludes effect accelerated share repurchases; see additional disclosure below

regarding our accelerated share repurchase activity during the fiscal year.

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Accelerated Share Repurchase Agreements Executed in September Quarter

On August 15, 2018, we entered into four separate accelerated share repurchase agreements (collectively, the "August 2018 ASR") with two financial institutions to repurchase a total of $1.4 billion of Common Stock. We took an initial delivery of approximately 5.8 million shares, which represented 75% of the prepayment amount divided by our closing stock price on August 14, 2018. The total number of shares to be received under the August 2018 ASR will be based upon the average daily volume weighted average price of our Common Stock during the repurchase period, less an agreed upon discount. Final settlement of the August 2018 ASR is expected to be completed no later than February 15, 2019.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

Exhibit Number	Description
10.1*	Form of Market-Based Performance Restricted Stock Unit Award Agreement (U.S. Participants) - 2015 Stock Incentive Plan
10.2*	Form of Market-Based Performance Restricted Stock Unit Award Agreement (International Participants) - 2015 Stock Incentive Plan
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
32.1	Section 1350 Certification (Principal Executive Officer)
32.2	Section 1350 Certification (Principal Financial Officer)
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*	Indicates management contract or compensatory plan or arrangement.

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LAM RESEARCH CORPORATION
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 thereunto duly authorized.

Date: October 25, 2018 LAM RESEARCH CORPORATION
(Registrant)

/s/ Douglas R. Bettinger
Douglas R. Bettinger
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)