LAM RESEARCH CORP
Form 10-Q
May 08, 2014
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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 March 30, 2014

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 Fremont, California	**94538**
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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 May 2, 2014, the Registrant had 162,130,379 shares of common stock outstanding.

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LAM RESEARCH CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

LAM RESEARCH CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	March 30, 2014 (unaudited)	June 30, 2013 (1)
ASSETS		
Cash and cash equivalents	$ 1,292,301	$ 1,162,473
Short-term investments	1,462,171	1,334,745
Accounts receivable, less allowance for doubtful accounts of $5,377 as of March 30, 2014 and $5,448 as of June 30, 2013	818,390	602,624
Inventories	717,356	559,317
Prepaid expenses and other current assets	157,131	134,670
Total current assets	4,447,349	3,793,829
Property and equipment, net	552,591	603,910
Restricted cash and investments	143,914	166,536
Goodwill	1,457,320	1,452,196
Intangible assets, net	951,593	1,074,345
Other assets	154,600	159,499
Total assets	$ 7,707,367	$ 7,250,315
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	$ 252,517	$ 200,254
Accrued expenses and other current liabilities	515,504	464,528
Deferred profit	257,283	225,038
Current portion of long-term debt, convertible notes, and capital leases	517,401	514,655
Total current liabilities	1,542,705	1,404,475
Long-term debt, convertible notes, and capital leases	810,688	789,256
Income taxes payable	251,080	246,479
Other long-term liabilities	111,346	134,313
Total liabilities	2,715,819	2,574,523
Commitments and contingencies		
Senior convertible notes	184,256	186,920
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 - 161,988 shares as of March 30, 2014 and 162,873 shares as of June 30, 2013	162	163
Additional paid-in capital	5,187,053	5,084,544
Treasury stock, at cost; 92,467 shares as of March 30, 2014 and 89,205 shares as of June 30, 2013	(3,724,434)	(3,539,830)
Accumulated other comprehensive loss	(27,071)	(28,693)
Retained earnings	3,371,582	2,972,688
Total stockholders equity	4,807,292	4,488,872
Total liabilities and stockholders equity	$ 7,707,367	$ 7,250,315

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	March 30, 2014	March 31, 2013	March 30, 2014	March 31, 2013
Revenue	$ 1,227,392	$ 844,928	$ 3,358,512	$ 2,612,702
Cost of goods sold	696,594	505,096	1,908,067	1,623,570
Gross margin	530,798	339,832	1,450,445	989,132
Research and development	185,978	174,206	531,022	503,468
Selling, general and administrative	152,883	154,807	457,604	454,091
Total operating expenses	338,861	329,013	988,626	957,559
Operating income	191,937	10,819	461,819	31,573
Other expense, net	(9,855)	(15,834)	(27,954)	(39,162)
Income (loss) before income taxes	182,082	(5,015)	433,865	(7,589)
Income tax expense (benefit)	17,686	(24,011)	34,971	(35,761)
Net income	$ 164,396	$ 18,996	$ 398,894	$ 28,172
Net income per share:				
Basic	$ 1.01	$ 0.12	$ 2.46	$ 0.16
Diluted	$ 0.96	$ 0.11	$ 2.33	$ 0.16
Number of shares used in per share calculations:				
Basic	162,238	163,034	161,904	171,016
Diluted	171,636	168,504	171,051	174,306

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		Nine Months Ended	
	March 30, 2014	**March 31, 2013**	**March 30, 2014**	**March 31, 2013**
Net income	$ 164,396	$ 18,996	$ 398,894	$ 28,172
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(8,160)	(5,398)	1,680	(554)
Cash flow hedges:				
Net unrealized gains (losses) during the period	(205)	8,400	8,632	10,028
Net gains reclassified into earnings	(3,248)	(5,389)	(10,066)	(3,100)
	(3,453)	3,011	(1,434)	6,928
Available-for-sale investments:				
Net unrealized gains (losses) during the period	(111)	67	962	(105)
Net losses (gains) reclassified into earnings	25	2,899	(120)	3,321
	(86)	2,966	842	3,216
Defined benefit plan, net change in unrealized component	149	160	534	483
Other comprehensive income (loss), net of tax	(11,550)	739	1,622	10,073
Comprehensive income	$ 152,846	$ 19,735	$ 400,516	$ 38,245

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended March 30, 2014	Nine Months Ended March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 398,894	$ 28,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	221,139	228,065
Deferred income taxes	11,641	(47,271)
Impairment of long-lived asset	11,632	
Impairment of investments		3,711
Equity-based compensation expense	70,615	74,089
Amortization of convertible note discount	24,652	23,530
Other, net	4,428	31,915
Changes in operating assets and liabilities	(271,843)	202,734
Net cash provided by operating activities	471,158	544,945
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(103,739)	(117,655)
Cash paid for business acquisition	(18,388)	(9,116)
Purchases of available-for-sale securities	(823,932)	(832,913)
Sales and maturities of available-for-sale securities	695,001	780,950
Repayments of notes receivable	10,000	
Proceeds from sale of assets	21,635	660
Transfer of restricted cash and investments	28,722	147
Net cash used for investing activities	(190,701)	(177,927)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(919)	(1,536)
Excess tax benefit on equity-based compensation plans	(296)	(903)
Treasury stock purchases	(204,610)	(953,386)
Reissuances of treasury stock related to employee stock purchase plan	28,329	18,419
Proceeds from issuance of common stock	26,134	22,666
Net cash used for financing activities	(151,362)	(914,740)
Effect of exchange rate changes on cash	733	2,079

Net increase (decrease) in cash and cash equivalents	129,828	(545,643)
Cash and cash equivalents at beginning of period	1,162,473	1,564,752
Cash and cash equivalents at end of period	$ 1,292,301	$ 1,019,109

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 30, 2014

(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 30, 2013, which are included in the Annual Report on Form 10-K as of and for the year ended June 30, 2013 (the 2013 Form 10-K). The Company s Forms 10-K, Forms 10-Q and Forms 8-K are available online at the Securities and Exchange Commission website on the Internet. The address of that site is *www.sec.gov* . The Company also posts its Forms 10-K, Forms 10-Q and Forms 8-K on its corporate website at *http://investor.lamresearch.com* .

The 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 (the 2014 fiscal year) will end June 29, 2014 and includes 52 weeks. The quarter ended March 30, 2014 (the March 2014 quarter) included 13 weeks. The quarter ended March 31, 2013 (the March 2013 quarter) included 14 weeks.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the FASB released Accounting Standards Update 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new standard requires that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss carryforward or other tax credit carryforward when settlement in this manner is available under the tax law. We are required to adopt this standard starting fiscal year 2015 and are currently in the process of determining the impact, if any, on our financial position.

NOTE 3 EQUITY-BASED COMPENSATION PLANS

The Company has stock plans that provide for grants of equity-based awards to eligible participants, including stock options and restricted stock units (RSUs), of Lam Research common stock (Common Stock). An option is a right to purchase Common Stock at a set price. An RSU award is an agreement to issue shares of Common Stock at the time of vesting. The Company s options and RSU awards typically vest over a period of three years or less, although awards assumed in connection with the acquisition of Novellus Systems, Inc. (Novellus), have vesting terms up to four 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 and related income tax benefit in the Condensed Consolidated Statements of Operations:

	Three Months Ended		Nine Months Ended	
	March 30, 2014	March 31, 2013	March 30, 2014	March 31, 2013
	(in millions)			
Equity-based compensation expense	$ 24.3	$ 25.6	$ 70.6	$ 74.1
Income tax benefit related to equity-based compensation expense	$ 4.1	$ 4.3	$ 11.7	$ 13.3

The estimated fair value of the Company s stock-based awards, less expected forfeitures, is amortized over the awards vesting term on a straight-line basis.

Stock Options and RSUs

The Lam Research Corporation 2007 Stock Incentive Plan and 2011 Stock Incentive Plan (collectively the Stock Plans) provide for the grant of non-qualified equity-based awards to eligible employees, consultants and advisors, and non-employee directors of the Company and its subsidiaries. As of March 30, 2014, there was a total of 6,395,328 shares reserved to cover options and RSUs issued and outstanding under the Plans. As of March 30, 2014, there were an additional 11,008,283 shares reserved and available for future equity-based awards under the Plans.

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A summary of stock option activity under the Plans as of March 30, 2014 and changes during the nine months then ended is presented below:

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value as of March 30, 2014 (in thousands)
Outstanding at June 30, 2013	2,571	$ 26.87	4.48	
Granted	166	$ 51.76		
Exercised	(1,065)	$ 24.50		
Forfeited or expired	(1)	$ 29.71		
Outstanding at March 30, 2014	1,671	$ 30.86	4.78	$ 39,501
Exercisable at March 30, 2014	1,066	$ 24.62	3.86	$ 31,840

The fair value of the Company s stock options was estimated using a Black-Scholes option valuation model. The total intrinsic value of options exercised during the three months ended March 30, 2014 and March 31, 2013 was $7.1 million and $8.0 million, respectively. The total intrinsic value of options exercised during the nine months ended March 30, 2014 and March 31, 2013 was $29.3 million and $12.7 million, respectively. As of March 30, 2014, there was $5.9 million of total unrecognized compensation cost related to unvested stock options granted and outstanding; that cost is expected to be recognized over a weighted-average remaining vesting period of 1.7 years.

A summary of the Company s RSUs as of March 30, 2014 and changes during the nine months then ended is presented below:

Unvested Restricted Stock Units	Shares (in thousands)	Average Grant-Date Fair Value
Unvested at June 30, 2013	4,842	$ 39.32
Granted	1,376	$ 49.47
Vested	(1,313)	$ 39.84
Forfeited	(181)	$ 39.48
Unvested at March 30, 2014	4,724	$ 42.12

The fair value of the Company s RSUs was calculated based upon the fair market value of Common Stock at the date of grant. As of March 30, 2014, there was $130.3 million of total unrecognized compensation expense related to unvested RSUs granted; that expense is expected to be recognized over a weighted-average remaining period of 1.9 years.

During the three months ended March 30, 2014, the Company issued restricted stock units with both a market condition and a service condition (market-based performance RSUs market-based PRSUs). Based upon the terms of such awards, the number of shares of Common Stock to be issued at vesting will range from 0% to 150% of the target amount, based on the total stockholder return (TSR) of Common Stock measured against the benchmark TSR of the Philadelphia Semiconductor Sector Index over a two and three year period, and continued employment. TSR is a measure of stock price appreciation in this performance period. As of March 30, 2014, 0.6 million market-based PRSUs were outstanding. These market-based performance restricted stock units generally vest two or three years from the grant date. Stock compensation expense for the market-based PRSUs was $1.2 million for the three and nine months ended March 30, 2014. No market-based PRSUs were awarded in earlier periods. The total unrecognized compensation expense and weighted-average remaining life for these awards is included in the above table.

ESPP

The 1999 Employee Stock Purchase Plan, as amended and restated (the 1999 ESPP), allows employees to designate a portion of their base compensation to be withheld through payroll deductions and used to purchase Common Stock at a purchase price per share equal to the lower of 85% of the fair market value of Common Stock on the first or last day of the applicable purchase period. Each offering period generally lasts up to 12 months and includes up to three interim purchase dates. As of March 30, 2014, there was a total of 8,741,208 shares available for issuance under the 1999 ESPP.

Purchase rights under the 1999 ESPP were valued using the Black-Scholes option valuation model assuming no expected dividends and the following weighted-average assumptions for the three and nine months ended March 30, 2014:

	Three Months Ended March 30, 2014	Nine Months Ended March 30, 2014
Expected term (years)	0.51	0.68
Expected stock price volatility	28.89%	30.24%
Risk-free interest rate	0.09%	0.07%

As of March 30, 2014, there was $5.7 million of unrecognized compensation expense related to the 1999 ESPP, which is expected to be recognized over a remaining period of approximately 5 months.

NOTE 4 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 short-term investments are classified as available-for-sale and consequently are recorded in the 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.

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.

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The following table sets forth the Company s financial assets and liabilities measured at fair value on a recurring basis at March 30, 2014:

		Fair Value Measurement at March 30, 2014		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets				
Short-Term Investments				
Money Market Funds	$ 1,042,596	$ 1,042,596	$	$
Municipal Notes and Bonds	248,949		248,949	
US Treasury and Agencies	182,967	182,967		
Government-Sponsored Enterprises	41,089		41,089	
Foreign Government Bonds	34,988		34,988	
Corporate Notes and Bonds	961,378	132,549	828,829	
Mortgage Backed Securities - Residential	26,580		26,580	
Mortgage Backed Securities - Commercial	104,857		104,857	
Total Short-Term Investments	**$ 2,643,404**	**$ 1,358,112**	**$ 1,285,292**	**$**
Mutual Funds	28,559	28,559		
Derivative Assets	2,487		2,487	
Total Assets	**$ 2,674,450**	**$ 1,386,671**	**$ 1,287,779**	**$**
Liabilities				
Derivative Liabilities	$ 1,340	$	$ 1,190	$ 150

The amounts in the table above are reported in the Consolidated Balance Sheet as of March 30, 2014 as follows:

Reported Within:	**Total**	**Level 1**	**Level 2**	**Level 3**
		(In thousands)		
Cash Equivalents	$ 1,042,596	$ 1,042,596	$	$
Short-Term Investments	1,462,171	176,879	1,285,292	
Restricted Cash and Investments	138,637	138,637		
Prepaid Expenses and Other Current Assets	2,487		2,487	
Other Assets	28,559	28,559		
Total Assets	**$ 2,674,450**	**$ 1,386,671**	**$ 1,287,779**	**$**
Accrued Expenses and Other Current Liabilities	$ 1,190	$	$ 1,190	$
Other Non-current Liabilities	150			150

Total Liabilities	$ 1,340	$	$ 1,190	$ 150

The following table sets forth the Company s financial assets and liabilities measured at fair value on a recurring basis at June 30, 2013:

		Fair Value Measurement at June 30, 2013		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In thousands)		
Assets				
Short-Term Investments				
Money Market Funds	$ 725,311	$ 725,311	$	$
Municipal Notes and Bonds	268,746		268,746	
US Treasury and Agencies	155,293	155,293		
Government-Sponsored Enterprises	54,805		54,805	
Foreign Government Bond	24,972		24,972	
Corporate Notes and Bonds	860,492	164,885	695,607	
Mortgage Backed Securities - Residential	27,365		27,365	
Mortgage Backed Securities - Commercial	107,958		107,958	
Total Short-Term Investments	**$ 2,224,942**	**$ 1,045,489**	**$ 1,179,453**	**$**
Equities	7,096	7,096		
Mutual Funds	18,216	18,216		
Derivative Assets	4,929		4,929	
Total Assets	**$ 2,255,183**	**$ 1,070,801**	**$ 1,184,382**	**$**
Liabilities				
Derivative Liabilities	$ 1,815	$	$ 1,620	$ 195

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The amounts in the table above are reported in the Consolidated Balance Sheet as of June 30, 2013 as follows:

Reported Within:	Total	Level 1	Level 2	Level 3
		(In thousands)		
Cash Equivalents	$ 725,311	$ 725,311	$	$
Short-Term Investments	1,334,746	155,293	1,179,453	
Restricted Cash and Investments	164,885	164,885		
Prepaid Expenses and Other Current Assets	4,929		4,929	
Other Assets	25,312	25,312		
Total Assets	**$ 2,255,183**	**$ 1,070,801**	**$ 1,184,382**	**$**
Accrued Expenses and Other Current Liabilities	$ 1,620	$	$ 1,620	$
Other Non-current Liabilities	195			195
Total Liabilities	$ 1,815	$	$ 1,620	$ 195

The Company s primary financial instruments include its cash, cash equivalents, short-term investments, restricted cash and investments, long-term investments, accounts receivable, accounts payable, long-term debt and capital leases, and foreign currency related derivatives. 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 13 for additional information regarding the fair value of the Company s convertible notes.

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Investments

The following tables summarize the Company s investments:

	March 30, 2014				June 30, 2013			
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Cost	Unrealized Gain	Unrealized Loss	Fair Value
	(In thousands)				(In thousands)			
Cash	$ 254,982	$	$	$ 254,982	$ 438,813	$	$	$ 438,813
Fixed Income Money Market Funds	1,042,596			1,042,596	725,311			725,311
Municipal Notes and Bonds	248,050	927	(28)	248,949	268,390	805	(449)	268,746
US Treasury and Agencies	183,072	61	(166)	182,967	155,648	18	(373)	155,293
Government-Sponsored Enterprises	41,068	51	(30)	41,089	54,835	65	(95)	54,805
Foreign Government Bonds	34,979	95	(86)	34,988	24,950	47	(25)	24,972
Corporate Notes and Bonds	960,356	1,771	(749)	961,378	861,109	1,328	(1,945)	860,492
Mortgage Backed Securities - Residential	26,802	30	(252)	26,580	27,618	29	(282)	27,365
Mortgage Backed Securities - Commercial	105,264	141	(548)	104,857	108,204	426	(672)	107,958
Total Cash and Short -Term Investments	**$ 2,897,169**	**$ 3,076**	**$ (1,859)**	**$ 2,898,386**	**$ 2,664,878**	**$ 2,718**	**$ (3,841)**	**$ 2,663,755**
Publicly Traded Equity Security	$	$	$	$	$ 5,610	$ 1,486	$	$ 7,096
Private Equity Security					5,000			5,000
Mutual Funds	25,656	2,903		28,559	16,611	1,619	(14)	18,216
Total Financial Instruments	**$ 2,922,825**	**$ 5,979**	**$ (1,859)**	**$ 2,926,945**	**$ 2,692,099**	**$ 5,823**	**$ (3,855)**	**$ 2,694,067**
Reported Within								
Cash and Cash Equivalents	$ 1,292,301	$	$	$ 1,292,301	$ 1,162,473	$	$	$ 1,162,473
Short-Term Investments	1,460,954	3,076	(1,859)	1,462,171	1,335,868	2,718	(3,841)	1,334,745
Restricted Cash and Investments	143,914			143,914	166,536			166,536
Other assets	25,656	2,903		28,559	27,222	3,105	(14)	30,313

Total	**$ 2,922,825**	**$ 5,979**	**$ (1,859)**	**$ 2,926,945**	**$ 2,692,099**	**$ 5,823**	**$ (3,855)**	**$ 2,694,067**

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. The Company did not recognize any losses on investments due to other-than-temporary impairments during the three and nine months ended March 30, 2014. The Company recognized a $3.7 million other-than-temporary impairment of a public equity investment during the three and nine months ended March 31, 2013. Additionally, gross realized gains and gross realized (losses) from sales of investments were approximately $0.4 million and $(0.7) million, respectively, in the three months ended March 30, 2014 and $0.2 million and $(0.4) million, respectively, in the three months ended March 31, 2013. Gross realized gains and gross realized (losses) from sales of investments were approximately $0.8 million and $(1.7) million, respectively, in the nine months ended March 30, 2014 and $1.4 million and $(1.1) million, respectively, in the nine months ended March 30, 2013.

The following is an analysis of the Company s fixed income securities in unrealized loss positions:

	March 30, 2014					
	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)					
Short-Term Investments						
Municipal Notes and Bonds	$ 17,114	$ (28)	$	$	$ 17,114	$ (28)
US Treasury and Agencies	96,394	(166)			96,394	(166)
Government-Sponsored Enterprises	14,071	(30)			14,071	(30)
Foreign Government Bonds	18,487	(86)			18,487	(86)
Corporate Notes and Bonds	261,299	(729)	6,465	(20)	267,764	(749)
Mortgage Backed Securities - Residential	20,974	(243)	127	(9)	21,101	(252)
Mortgage Backed Securities - Commercial	75,081	(404)	4,249	(144)	79,330	(548)
Total Short-Term Investments	**$ 503,420**	**$ (1,686)**	**$ 10,841**	**$ (173)**	**$ 514,261**	**$ (1,859)**

The amortized cost and fair value of cash equivalents, short-term investments, and restricted cash and investments with contractual maturities are as follows as of March 30, 2014:

	Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$ 1,316,589	$ 1,317,140
Due after one year through five years	1,035,559	1,036,852
Due in more than five years	290,039	289,412
	$ 2,642,187	$ 2,643,404

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

Derivative Instruments and Hedging

The Company carries derivative financial instruments (derivatives) on its Consolidated Balance Sheets at their fair values. The Company enters into foreign currency forward contracts with financial institutions with the primary objective of reducing volatility of earnings and cash flows related to foreign currency exchange rate fluctuations. The counterparties to these forward contracts are large global financial institutions that the Company believes are creditworthy, and therefore, we do 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 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 that generally expire within 12 months and no later than 24 months. These foreign currency forward 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.

At inception and at each quarter end, hedges are tested prospectively and retrospectively for effectiveness using regression analysis. Changes in the fair value of the forward contracts due to changes in time value are excluded from the assessment of effectiveness and are recognized in revenue or expense in the current period. The change in time value related to these contracts was not material for all reported periods. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to 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 gains or losses during the three and nine months ended March 30, 2014 or March 31, 2013 associated with ineffectiveness or forecasted transactions that failed to occur.

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, with the exception of excluded time value and hedge ineffectiveness recognized, 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. At March 30, 2014, the Company had gains of $1.4 million accumulated in other comprehensive income, which it expects to reclassify from other comprehensive income into earnings over the next 12 months.

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 third party accounts receivables, accounts payables 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).

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As of March 30, 2014, the Company had the following outstanding foreign currency forward contracts that were entered into under its cash flow and balance sheet hedge program:

Foreign Currency Forward Contracts	Derivatives Designated as Hedging Instruments: (in thousands)		Derivatives Not Designated as Hedging Instruments:	
	Buy Contracts	Sell Contracts	Buy Contracts	Sell Contracts
Japanese Yen	$	$ 123,282	$	$ 65,959
Swiss Franc			7,496	
Euro	60,487			8,901
Korean Won			36,386	
Taiwan Dollar			188,583	65,899
	$ 60,487	$ 123,282	$ 232,465	$ 140,759

The fair value of derivative instruments in the Company s Consolidated Balance Sheets as of March 30, 2014 and June 30, 2013 were as follows:

	March 30, 2014 Fair Value of Derivative Instruments				June 30, 2013 Fair Value of Derivative Instruments			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value** (in thousands)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:								
Foreign exchange forward contracts	Prepaid expense and other assets	$ 2,297	Accrued liabilities	$ 619	Prepaid expense and other assets	$ 4,858	Accrued liabilities	$ 1,577
Derivatives not designated as hedging instruments:								
Foreign exchange forward contracts	Prepaid expense and other assets	190	Accrued liabilities	571	Prepaid expense and other assets	71	Accrued liabilities	43

Total derivatives	**$ 2,487**	**$ 1,190**	**$ 4,929**	**$ 1,620**

Under the master netting agreements with the respective counterparties to the Company s foreign exchange 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 in its balance sheet. As of March 30, 2014, the potential effect of netting the above foreign exchange contracts would be an offset to assets and liabilities by $0.7 million, resulting in a net derivative asset of $1.3 million. As of June 30, 2013, the potential effect of netting the above foreign exchange contracts was an offset to both assets and liabilities by $1.6 million, resulting in a net derivative asset of $3.3 million. The Company is not required to pledge, nor is the Company entitled to receive, cash collateral for these derivative transactions.

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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 March 30, 2014			**Nine Months Ended March 30, 2014**		
	Effective Portion		**Ineffective Portion and Amount Excluded from Effectiveness Testing**	**Effective Portion**		**Ineffective Portion and Amount Excluded from Effectiveness Testing**
Location of Gain (Loss) Recognized in or Reclassified into Income	Gain (Loss) Recognized in AOCI	Gain Reclassified from AOCI into Income	Gain (Loss) Recognized in Income	Gain Recognized in AOCI	Gain Reclassified from AOCI into Income	Gain (Loss) Recognized in Income
		(in thousands)			(in thousands)	
Revenue	$ (621)	$ 2,787	$ 54	$ 7,483	$ 8,947	$ 232
Cost of goods sold	307	646	(10)	1,717	1,764	(66)
Selling, general, and administrative	112	291	(5)	667	800	(29)
Other income (expense)						
	$ (202)	$ 3,724	$ 39	$ 9,867	$ 11,511	$ 137

	Three Months Ended March 31, 2013			**Nine Months Ended March 31, 2013**		
	Effective Portion		**Ineffective Portion and Amount Excluded from Effectiveness Testing**	**Effective Portion**		**Ineffective Portion and Amount Excluded from Effectiveness Testing**
Location of Gain (Loss) Recognized in or Reclassified into Income	Gain (Loss) Recognized in AOCI	Gain Reclassified from AOCI into Income	Gain (Loss) Recognized in Income	Gain Recognized in AOCI	Gain (Loss) Reclassified from AOCI into Income	Gain (Loss) Recognized in Income
		(in thousands)			(in thousands)	
Revenue	$ 9,454	$ 3,850	$ 78	$ 8,159	$ 4,574	$ 274
Cost of goods sold	(563)	1,194	(44)	1,332	(1,069)	(208)
Selling, general, and administrative	(491)	345	(20)	537	(405)	(100)
Other income (expense)						(8)

	$ 8,400	$ 5,389	$ 14	$ 10,028	$ 3,100	$ (42)

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

		Three Months Ended		Nine Months Ended	
		March 30, 2014	March 31, 2013	March 30, 2014	March 31, 2013
Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income	Loss Recognized in Income	Gain Recognized in Income	Gain Recognized in Income	Gain Recognized in Income
			(in thousands)		
Foreign Exchange Contracts	Other income (expense)	$ (6,527)	$ 2,061	$ 4,512	$ 2,347

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term 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 or Moody s Investor Services, respectively. 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 the foreign currency forward hedge contracts and on 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 statements and payment performance. In general, the Company does not require collateral on sales.

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NOTE 5 INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipments to Japanese customers, to whom 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:

	March 30, 2014	June 30, 2013
	(in thousands)	
Raw materials	$ 440,772	$ 312,484
Work-in-process	114,890	101,530
Finished goods	161,694	145,303
	$ 717,356	$ 559,317

NOTE 6 PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following:

	March 30, 2014	June 30, 2013
	(in thousands)	
Manufacturing, engineering and office equipment	$ 590,505	$ 521,047
Computer equipment and software	128,753	120,144
Land	55,951	65,360
Buildings	207,537	249,126
Leasehold improvements	79,152	76,225
Furniture and fixtures	24,824	21,110
	1,086,722	1,053,012
Less: accumulated depreciation and amortization	(534,131)	(449,102)
	$ 552,591	$ 603,910

During the nine months ended March 30, 2014, the Company sold or reclassified to assets held-for-sale property and equipment with a net book value of $69 million as a result of facility consolidation. These assets consisted primarily of buildings and land, resulting in the decreases to those asset categories in the table above.

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

Goodwill

There was no significant change in the goodwill balance during the nine months ended March 30, 2014. Of the $1.5 billion goodwill balance as of March 30, 2014, $61 million is tax deductible and the remaining balance is not tax deductible due to purchase accounting and applicable foreign law.

Goodwill is assessed at least annually for impairment. The Company did not record impairments of goodwill during the three or nine months ended March 30, 2014 or March 31, 2013.

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Intangible Assets

The following table provides details of the Company s intangible assets, including the impact of foreign currency translation adjustments, as of March 30, 2014:

	Gross	Accumulated Amortization (in thousands)	Net	Weighted-Average Useful Life (years)
Customer relationships	$ 625,072	$ (156,121)	$ 468,951	9.01
Existing technology	662,357	(207,981)	454,376	6.96
Patents	32,053	(23,887)	8,166	6.09
Other intangible assets	35,216	(35,216)		4.10
Intangible assets subject to amortization	1,354,698	(423,205)	931,493	
In process research and development	11,000		11,000	
Development rights	9,100		9,100	
Intangible assets not subject to amortization	20,100		20,100	
Total intangible assets	$ 1,374,798	$ (423,205)	$ 951,593	

The following table provides details of the Company s intangible assets, including the impact of foreign currency translation adjustments, as of June 30, 2013 (in thousands, except years):

	Gross	Accumulated Amortization (in thousands)	Net	Weighted-Average Useful Life (years)
Customer relationships	$ 624,686	$ (103,519)	$ 521,167	9.01
Existing technology	653,628	(139,894)	513,734	6.97
Patents	32,053	(22,036)	10,017	6.09
Backlog	10,000	(10,000)		1.00
Other intangible assets	35,216	(34,889)	327	4.10
Intangible assets subject to amortization	1,355,583	(310,338)	1,045,245	
In process research and development	20,000		20,000	
Development rights	9,100		9,100	
Intangible assets not subject to amortization	29,100		29,100	
Total intangible assets	$ 1,384,683	$ (310,338)	$ 1,074,345	

The Company recognized $40.4 million and $45.0 million in intangible asset amortization expense during the three months ended March 30, 2014 and March 31, 2013, respectively. The Company recognized $122.9 million and $134.3 million in intangible asset amortization expense during the nine months ended March 30, 2014 and March 31, 2013, respectively. The Company recognized a $4.0 million impairment of in process research and development during the three and nine months ended March 31, 2014 due to the cancellation of a project.

The estimated future amortization expense of purchased intangible assets as of March 30, 2014 is as follows:

Fiscal Year	**Amount (in thousands)**
2014 (3 months)	$ 39,842
2015	159,718
2016	157,510
2017	155,790
2018	154,625
Thereafter	264,008
	$ 931,493

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NOTE 8 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	March 30, 2014	June 30, 2013
	(in thousands)	
Accrued compensation	$ 283,594	$ 254,795
Warranty reserves	71,489	52,252
Income and other taxes payable	51,178	39,420
Other	109,243	118,061
	$ 515,504	$ 464,528

NOTE 9 OTHER EXPENSE, NET

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

	Three Months Ended		Nine Months Ended	
	March 30, 2014	March 31, 2013	March 30, 2014	March 31, 2013
	(in thousands)			
Interest income	$ 3,110	$ 3,235	$ 8,661	$ 11,411
Interest expense	(15,621)	(15,175)	(46,220)	(45,294)
Gains on deferred compensation plan related assets	3,137	3,112	8,534	7,087
Foreign exchange gains (losses)	(85)	(1,294)	(181)	(4,936)
Other, net	(396)	(5,712)	1,252	(7,430)
	$ (9,855)	$ (15,834)	$ (27,954)	$ (39,162)

NOTE 10 INCOME TAX EXPENSE

The Company recorded an income tax expense of $17.7 million and $35.0 million for the three and nine months ended March 30, 2014, respectively, which yielded an effective tax rate for the three and nine months ended March 30, 2014 of approximately 9.7% and 8.1%, respectively. The difference between the U.S. federal statutory tax rate of 35% and the Company s effective tax rate for the three and nine months ended March 30, 2014 is primarily due to the geographic mix of income and the recognition of previously unrecognized tax benefits due to lapse of statutes of limitation, offset by the tax effect of non-deductible stock-based compensation and unrecognized tax benefits due to uncertain tax positions.

NOTE 11 NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of shares of Common Stock outstanding during the period. Diluted net income per share is computed using the treasury stock method, for dilutive stock options, RSUs, and convertible notes. Dilutive shares outstanding include only the effect of the 2041 Notes. The following table reconciles the numerators and denominators of the basic and diluted computations for net income per share.

	Three Months Ended		**Nine Months Ended**	
	March 30, 2014	**March 31, 2013**	**March 30, 2014**	**March 31, 2013**
	(in thousands, except per share data)			
Numerator:				
Net income	$ 164,396	$ 18,996	$ 398,894	$ 28,172
Denominator:				
Basic average shares outstanding	162,238	163,034	161,904	171,016
Effect of potential dilutive securities:				
Employee stock plans	2,641	2,729	2,810	2,390
Convertible notes	6,757	2,741	6,337	900
Diluted average shares outstanding	171,636	168,504	171,051	174,306
Net income per share - basic	$ 1.01	$ 0.12	$ 2.46	$ 0.16
Net income per share - diluted	$ 0.96	$ 0.11	$ 2.33	$ 0.16

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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		Nine Months Ended	
	March 30, 2014	March 31, 2013	March 30, 2014	March 31, 2013
	(in thousands)			
Number of potential dilutive securities excluded	75	298	85	567

Diluted shares outstanding do not include any effect resulting from warrants, assumed conversion of the notes, or note hedges associated with the Company s 2016 or 2018 Notes (as described in Note 13) as their impact would have been anti-dilutive.

NOTE 12 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 holding gain (loss) on cash flow hedges	Accumulated unrealized holding gain (loss) on available-for-sale investments	Accumulated unrealized components of defined benefit plans	Total
			(in thousands)		
Balance as of June 30, 2013	$ (17,178)	$ 2,822	$ (15)	$ (14,322)	$ (28,693)
Other comprehensive income before reclassifications	1,680	8,632	962	534	11,808
Gains reclassified from accumulated other comprehensive income to net income		(10,066) (1)	(120) (2)		(10,186)
Net current-period other comprehensive income	$ 1,680	$ (1,434)	$ 842	$ 534	$ 1,622
Balance as of March 30, 2014	$ (15,498)	$ 1,388	$ 827	$ (13,788)	$ (27,071)

(1)

Amount of after tax gain reclassified from accumulated other comprehensive income into net income located in revenue: $7,961, cost of goods sold: $1,505 and selling, general and administrative expenses: $600.

(2) Amount of after tax gain reclassified from accumulated other comprehensive income into net income located in other expense, net.

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NOTE 13 LONG-TERM DEBT AND OTHER BORROWINGS

The following table reflects the carrying value of the Company s convertible senior notes and other long-term debt as of March 30, 2014 and June 30, 2013:

	March 30, 2014	June 30, 2013
	(in millions)	
0.50% Notes due 2016	$ 450.0	$ 450.0
Less: Unamortized interest discount	(34.3)	(45.7)
Net carrying amount of 0.50% Notes due 2016	415.7	404.3
1.25% Notes due 2018	450.0	450.0
Less: Unamortized interest discount	(66.3)	(76.9)
Net carrying amount of 1.25% Notes due 2018	383.7	373.1
2.625% Notes due 2041	699.9	699.9
Less: Unamortized interest discount	(184.2)	(186.9)
Net carrying amount of 2.625% Notes due 2041	515.7	513.0
Total debt	1,315.1	1,290.4
Less: current portion of debt	(515.7)	(513.0)
Long-term debt	$ 799.4	$ 777.4

Convertible Senior Notes

In May 2011, the Company issued and sold $450.0 million in aggregate principal amount of 0.50% Convertible Senior Notes due May 2016 (the 2016 Notes) at par. At the same time, the Company issued and sold $450.0 million in aggregate principal amount of 1.25% Convertible Senior Notes due May 2018 (the 2018 Notes) at par. The 2016 Notes and the 2018 Notes may be converted, under certain circumstances, based on an initial conversion rate of 15.8687 shares of Common Stock per $1,000 principal amount of notes (which represents an initial conversion price of approximately $63.02 per share of Common Stock).The net proceeds to the Company from the sale of the 2016 Notes and the 2018 Notes were $835.5 million. The Company pays cash interest at an annual rate of 0.5% and 1.25%, respectively, on the 2016 Notes and the 2018 Notes, on a semi-annual basis on May 15 and November 15 of each year.

In June 2012, with the acquisition of Novellus, the Company assumed $700.0 million in aggregate principal amount of 2.625% Convertible Senior Notes due May 2041 (the 2041 Notes, and collectively with the 2016 Notes and the 2018 Notes, the Notes). The 2041 Notes may be converted, under certain circumstances, based on an initial conversion rate of 28.4781 shares of Common Stock per $1,000 principal amount of notes (which represents an initial conversion price of approximately $35.11 per share of Common Stock). 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 based on certain thresholds, beginning with the semi-annual interest payment commencing on May 15, 2021, and upon the occurrence of certain events, as outlined in the indenture governing the 2041 Notes. The maximum amount of the contingent interest will accrue at a rate of 2.1% per annum, excluding any potential impact from dividends deemed payable to holders of the 2041 Notes. The contingent interest payment provision has been identified as an embedded derivative, to be accounted for separately, and is recorded at fair value at the end of each reporting period in other non-current liabilities, with any gains and losses recorded in interest expense, within the Condensed Consolidated Statements of Operations.

The Company separately accounts for the liability and equity components of the Notes. The initial debt components of the 2016 Notes, the 2018 Notes, and the 2041 Notes were valued at $373.8 million, $345.1 million, and $509.5 million, respectively, based on the present value of the future cash flows using discount rates of 4.29%, 5.27%, and 4.28%, respectively, the Company s borrowing rate at the date of the issuance or assumption for similar debt instruments without the conversion feature. The carrying values of the equity components of the 2016 Notes, the 2018 Notes, and the 2041 Notes were $76.2 million, $104.9 million, and $328.1 million, respectively as of March 30, 2014. The effective interest rates on the liability components of the 2016 Notes, the 2018 Notes, and the 2041 Notes for the three and nine months ended March 30, 2014 were 4.29%, 5.27%, and 4.28%, respectively. The following table presents the amount of interest cost recognized relating to both the contractual interest coupon and amortization of the discount on the liability component of the Notes during the three and nine months ended March 30, 2014 and March 31, 2013.

	Three Months Ended		**Nine Months Ended**	
	March 30, 2014	**March 31, 2013**	**March 30, 2014**	**March 31, 2013**
		(in millions)		
Contractual interest coupon	$ 6.6	$ 6.6	19.7	19.7
Amortization of interest discount	8.3	7.9	24.7	23.5
Amortization of issuance costs	0.6	0.6	1.8	1.8
Total interest cost recognized	$ 15.5	$ 15.1	$ 46.2	$ 45.0

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The remaining bond discount of the 2016 Notes, the 2018 Notes, and the 2041 Notes of $34.3 million, $66.3 million, and $184.2 million, respectively, as of March 30, 2014 will be amortized over their respective remaining lives of approximately 2.1 years, 4.1 years, and 27.1 years. As of March 30, 2014, the if-converted value of the 2016 Notes and 2018 Notes did not exceed the aggregate principal amount. As of March 30, 2014, the if-converted value of the 2041 Notes exceeded the aggregate principal amount by $386.3 million.

Convertible Note Hedges and Warrants

Concurrently with the issuance of the 2016 Notes and the 2018 Notes, the Company purchased convertible note hedges and sold warrants. The separate convertible note hedge and warrant transactions are collectively structured to reduce the potential future economic dilution associated with the conversion of the 2016 Notes and the 2018 Notes and to increase the effective initial conversion price to $71.34 and $76.10 per share, respectively. Each of these components is discussed below.

Concurrent with the issuance of the 2016 Notes, the Company sold warrants to purchase up to approximately 7.1 million shares of Common Stock at an exercise price of $71.34 per share. The warrants expire on a series of dates between August 15, 2016 and October 21, 2016. At expiration, the Company may, at its option, elect to settle the warrants on a net share basis. As of March 30, 2014, the warrants had not been exercised and remained outstanding. In addition, counterparties agreed to sell to the Company up to approximately 7.1 million shares of Common Stock, which is the number of shares initially issuable upon conversion of the 2016 Notes in full, at a price of $63.02 per share. The convertible note hedge transaction will be settled in net shares and will terminate upon the earlier of the maturity date of the 2016 Notes or the first day none of the 2016 Notes remains outstanding due to conversion or otherwise. Settlement of the convertible note hedge in net shares, based on the number of shares issued upon conversion of the 2016 Notes, on the expiration date would result in the Company receiving net shares equivalent to the number of shares issuable by the Company upon conversion of the 2016 Notes.

Concurrent with the issuance of the 2018 Notes, the Company sold warrants to purchase up to approximately 7.1 million shares of Common Stock at an exercise price of $76.10 per share. The warrants expire on a series of dates between August 15, 2018 and October 23, 2018. At expiration, the Company may, at its option, elect to settle the warrants on a net share basis. As of March 30, 2014, the warrants had not been exercised and remained outstanding. In addition, counterparties agreed to sell to the Company up to approximately 7.1 million shares of Common Stock, which is the number of shares initially issuable upon conversion of the 2018 Notes in full, at a price of $63.02 per share. The convertible note hedge transaction will be settled in net shares and will terminate upon the earlier of the maturity date of the 2018 Notes or the first day none of the 2018 Notes remains outstanding due to conversion or otherwise. Settlement of the convertible note hedge in net shares, based on the number of shares issued upon conversion of the 2018 Notes, on the expiration date would result in the Company receiving net shares equivalent to the number of shares issuable by the Company upon conversion of the 2018 Notes.

Conversion Period

During the fiscal quarters ended June 30, 2013, December 29, 2013 and March 30, 2014 the market value of the Common Stock was greater than or equal to 130% of the 2041 Note conversion price for 20 or more trading days of the 30 consecutive trading days preceding the quarter end. As a result, the 2041 Notes became convertible at the option of the holder anytime during the fiscal quarters ending December 29, 2013 and continue to be convertible through June 29, 2014 (the June 2014 quarter). However, there were no conversions of the 2041 Notes during the March 2014 quarter or the June 2014 quarter as of May 5, 2014.

As a result of the open conversion period, the carrying amount of the 2041 Notes was classified in current liabilities in the Company s Consolidated Balance Sheets as of March 30, 2014 and June 30, 2013. The excess of the amount of cash payable, if converted, over the carrying amount of the 2041 Notes was classified as temporary equity as of March 30, 2014 and June 30, 2013. Upon closure of a conversion period, all 2041 Notes not converted will be reclassified back to noncurrent liabilities and the temporary equity is reclassified to permanent equity.

Fair Value of Notes

As of March 30, 2014, the face values of the 2016 Notes, the 2018 Notes, and the 2041 Notes were $450.0 million, $450.0 million, and $699.9 million, respectively. As of March 30, 2014, the fair values of the 2016 Notes, the 2018 Notes, and the 2041 Notes, which includes the debt and equity components, were approximately $518.6 million, $558.4 million, and $1,196.9 million, respectively, based on quoted market prices (Level 1 inputs within the fair value hierarchy).

Revolving Credit Facility

On March 12, 2014 the Company entered into a $300 million revolving unsecured credit facility with a syndicate of lenders that matures on March 12, 2019. The facility includes an option for the Company to, subject to certain requirements, request an increase in the facility of up to an additional $200 million, for a potential total commitment of $500 million. Proceeds from the credit facility can be used for general corporate purposes.

Interest on amounts borrowed under the credit facility is, at the Company s option, based on (i) 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 (ii) LIBOR plus a spread of 0.9% to 1.5%, in each case 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 rating described above. The credit facility contains certain restrictive covenants including maintaining a total consolidated indebtedness to consolidated capitalization ratio of no more than 0.5 to 1.0 and maintaining unrestricted or unencumbered cash and investments of no less than $1.0 billion. As of March 30, 2014, we had no borrowings outstanding under the credit facility and were in compliance with all financial covenants.

NOTE 14 COMMITMENTS

Operating Leases and Related Guarantees

The Company leases certain 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 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.

On December 31, 2013, the Company extinguished its two operating leases regarding certain improved properties in Livermore, California and its four amended and restated operating leases regarding certain improved properties in Fremont, California and entered into six amended operating leases (the Operating Leases) regarding certain improved properties at the Company s headquarters in Fremont, California and certain other improved properties in Livermore, California.

The Operating Leases have a term of approximately seven years ending on December 31, 2020. The Company may, at its discretion and with 30 days notice, elect to purchase the property that is the subject of the Operating Leases for an amount approximating the sum required to pay the amount of the lessor s investment in the property and any accrued but unpaid rent.

As of March 30, 2014, the Company was required, pursuant to the terms of the Operating Leases, to maintain cash collateral in an aggregate of approximately $132.5 million in separate interest-bearing accounts and marketable securities collateral in an aggregate of approximately $6.1 million as security for the Company s obligations under the Operating Leases. These amounts are recorded as restricted cash and investments in the Company s Consolidated Balance Sheet as of March 30, 2014.

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 $191.2 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 $220.0 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 may limit its exposure to such indemnifications. As of March 30, 2014, the Company had not recorded any liability in connection with these indemnifications, as it does not believe, based on information available, 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, based on information available, 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 March 30, 2014, the maximum potential amount of future payments that we could be required to make under these arrangements and letters of credit was $20.9 million. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid.

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.

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

	Three Months Ended		Nine Months Ended	
	March 30, 2014	March 31, 2013	March 30, 2014	March 31, 2013
	(in thousands)			
Balance at beginning of period	$ 67,413	$ 62,922	$ 58,078	$ 70,161
Warranties issued during the period	25,106	18,829	67,405	53,377
Settlements made during the period	(19,686)	(27,101)	(52,958)	(72,960)
Changes in liability for pre-existing warranties	(258)	90	50	4,162
Balance at end of period	$ 72,575	$ 54,740	$ 72,575	$ 54,740

NOTE 15 RESTRUCTURING AND IMPAIRMENTS

From time to time, the Company initiates restructuring activities to appropriately align its cost structure relative to prevailing economic and industry conditions and associated customer demand as well as in connection with certain acquisitions. Costs associated with restructuring actions can include termination benefits and related charges in addition to facility closure, contract termination and other related activities.

Accounting for restructuring activities, as compared to regular operating cost management activities, requires an evaluation of formally committed and approved plans. Restructuring activities have comparatively greater strategic significance and materiality and may involve exit activities, whereas regular cost containment activities are more tactical in nature and are rarely characterized by formal and integrated action plans or exiting a particular product, facility, or service.

March 2009 Plan

Beginning in the March 2009 quarter, the Company incurred restructuring expenses designed to align the Company s cost structure with its outlook for the economic environment and business opportunities. During the March 2014 quarter, the Company entered into the Operating Leases and de-recognized the remaining liability associated with the residual value guarantee. See Note 14 to the Condensed Consolidated Financial Statements for additional information regarding residual value guarantees.

Acquired Restructuring Liabilities

In addition to restructuring plans initiated by the Company, a restructuring liability related to future rent obligations on unoccupied facilities was assumed in the Novellus acquisition. The associated liability balance of $10.3 million, as of March 30, 2014, is expected to be paid by the end of fiscal year 2017.

NOTE 16 STOCK REPURCHASE PROGRAM