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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 26, 2021

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)**

Registrant's telephone number, including area code: (510) 572-0200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value $0.001 Per Share	LRCX	The Nasdaq Stock Market (Nasdaq Global Select Market)

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 ☒ 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	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 ☒

As of January 28, 2022, the Registrant had 139,500,143 shares of Common Stock outstanding.

LAM RESEARCH CORPORATION

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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		Six Months Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
Revenue	$ 4,226,604	$ 3,456,237	$ 8,531,069	$ 6,633,317
Cost of goods sold	2,248,688	1,852,442	4,576,399	3,523,343
Gross margin	1,977,916	1,603,795	3,954,670	3,109,974
Research and development	403,644	375,172	785,971	730,539
Selling, general, and administrative	236,133	218,899	458,327	408,647
Total operating expenses	639,777	594,071	1,244,298	1,139,186
Operating income	1,338,139	1,009,724	2,710,372	1,970,788
Other income (expense), net	17,999	(29,941)	(10,858)	(68,733)
Income before income taxes	1,356,138	979,783	2,699,514	1,902,055
Income tax expense	(161,308)	(110,554)	(324,940)	(209,375)
Net income	$ 1,194,830	$ 869,229	$ 2,374,574	$ 1,692,680
Net income per share:				
Basic	$ 8.50	$ 6.04	$ 16.82	$ 11.71
Diluted	$ 8.44	$ 5.96	$ 16.71	$ 11.55
Number of shares used in per share calculations:				
Basic	140,630	143,830	141,187	144,549
Diluted	141,530	145,910	142,071	146,579

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
Net income	$ 1,194,830	$ 869,229	$ 2,374,574	$ 1,692,680
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(9,820)	21,808	(13,852)	33,932
Cash flow hedges:				
Net unrealized gains during the period	12,792	4,872	3,787	4,522
Net (gains) losses reclassified into net income	(7,904)	283	(11,446)	1,050
	4,888	5,155	(7,659)	5,572
Available-for-sale investments:				
Net unrealized losses during the period	(785)	(644)	(3,190)	(2,044)
Net losses reclassified into net income	345	163	1,490	565
	(440)	(481)	(1,700)	(1,479)
Defined benefit plans, net change in unrealized component	(1,006)	64	(807)	60
Other comprehensive (loss) income, net of tax	(6,378)	26,546	(24,018)	38,085
Comprehensive income	$ 1,188,452	$ 895,775	$ 2,350,556	$ 1,730,765

See Notes to Condensed Consolidated Financial Statements

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

	December 26, 2021 (unaudited)	June 27, 2021 (1)
ASSETS		
Cash and cash equivalents	$ 5,086,544	$ 4,418,263
Investments	242,590	1,310,872
Accounts receivable, less allowance of $5,379 as of December 26, 2021, and $5,255 as of June 27, 2021	3,402,840	3,026,430
Inventories	3,074,177	2,689,294
Prepaid expenses and other current assets	296,711	207,528
Total current assets	12,102,862	11,652,387
Property and equipment, net	1,503,385	1,303,479
Restricted cash and investments	250,863	252,487
Goodwill	1,489,678	1,490,134
Intangible assets, net	112,077	132,365
Other assets	1,226,563	1,061,300
Total assets	$ 16,685,428	$ 15,892,152
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Trade accounts payable	$ 952,666	$ 829,710
Accrued expenses and other current liabilities	1,770,406	1,719,483
Deferred profit	1,133,878	967,325
Current portion of long-term debt and finance lease obligations	6,201	11,349
Total current liabilities	3,863,151	3,527,867
Long-term debt and finance lease obligations, less current portion	4,988,121	4,990,333
Income taxes payable	891,545	948,037
Other long-term liabilities	466,830	398,727
Total liabilities	10,209,647	9,864,964
Commitments and contingencies		
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 as of December 26, 2021 and June 27, 2021; issued and outstanding, 140,275 shares as of December 26, 2021, and 142,501 shares as of June 27, 2021	140	143
Additional paid-in capital	7,220,359	7,052,962
Treasury stock, at cost; 153,091 shares as of December 26, 2021, and 150,766 shares as of June 27, 2021	(17,294,255)	(15,646,701)
Accumulated other comprehensive loss	(88,146)	(64,128)
Retained earnings	16,637,683	14,684,912
Total stockholders’ equity	6,475,781	6,027,188
Total liabilities and stockholders’ equity	$ 16,685,428	$ 15,892,152

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended	
	December 26, 2021	**December 27, 2020**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	2,374,574	$ 1,692,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	161,579	149,301
Deferred income taxes	(26,573)	(4,312)
Equity-based compensation expense	120,933	108,097
Other, net	(75,204)	11,029
Changes in operating assets and liabilities	(657,279)	(969,647)
Net cash provided by operating activities	1,898,030	987,148
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(274,920)	(154,878)
Purchases of available-for-sale securities	(268,457)	(2,452,216)
Maturities of available-for-sales securities	134,096	1,289,006
Sales of available-for-sale securities	1,197,575	594,238
Other, net	(5,518)	(7,876)
Net cash provided by (used for) investing activities	782,776	(731,726)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(8,036)	(23,769)
Treasury stock purchases	(1,651,568)	(1,171,878)
Dividends paid	(396,647)	(355,056)
Reissuance of treasury stock related to employee stock purchase plan	46,380	41,434
Proceeds from issuance of common stock	4,193	13,646
Other, net	(17)	(1,179)
Net cash used for financing activities	(2,005,695)	(1,496,802)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(8,454)	12,269
Net increase (decrease) in cash, cash equivalents, and restricted cash	666,657	(1,229,111)
Cash, cash equivalents, and restricted cash at beginning of period	4,670,750	5,169,083
Cash, cash equivalents, and restricted cash at end of period	$ 5,337,407	$ 3,939,972
Schedule of non-cash transactions:		
Accrued payables for stock repurchases	20,103	23,046
Accrued payables for capital expenditures	96,425	72,282
Dividends payable	210,587	186,611
Transfers of finished goods inventory to property and equipment	55,322	49,748

Reconciliation of cash, cash equivalents, and restricted cash	**December 26, 2021**	**December 27, 2020**
Cash and cash equivalents	$ 5,086,544	$ 3,687,165
Restricted cash and cash equivalents	250,863	252,807
Total cash, cash equivalents, and restricted cash	$ 5,337,407	$ 3,939,972

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended December 26, 2021						
	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at September 26, 2021	140,811	$ 141	$ 7,111,803	$ (16,863,573)	$ (81,768)	$ 15,653,440	$ 5,820,043
Issuance of common stock	52	—	3,451	—	—	—	3,451
Purchase of treasury stock	(685)	(1)	—	(434,791)	—	—	(434,792)
Reissuance of treasury stock	97	—	42,271	4,109	—	—	46,380
Equity-based compensation expense	—	—	62,834	—	—	—	62,834
Net income	—	—	—	—	—	1,194,830	1,194,830
Other comprehensive loss	—	—	—	—	(6,378)	—	(6,378)
Cash dividends declared ($1.50 per common share)	—	—	—	—	—	(210,587)	(210,587)
Balance at December 26, 2021	140,275	$ 140	$ 7,220,359	$ (17,294,255)	$ (88,146)	$ 16,637,683	$ 6,475,781

	Six Months Ended December 26, 2021						
	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at June 27, 2021	142,501	$ 143	$ 7,052,962	$ (15,646,701)	$ (64,128)	$ 14,684,912	$ 6,027,188
Issuance of common stock	99	—	4,193	—	—	—	4,193
Purchase of treasury stock	(2,422)	(3)	—	(1,651,663)	—	—	(1,651,666)
Reissuance of treasury stock	97	—	42,271	4,109	—	—	46,380
Equity-based compensation expense	—	—	120,933	—	—	—	120,933
Net income	—	—	—	—	—	2,374,574	2,374,574
Other comprehensive loss	—	—	—	—	(24,018)	—	(24,018)
Cash dividends declared ($3.00 per common share)	—	—	—	—	—	(421,803)	(421,803)
Balance at December 26, 2021	140,275	$ 140	$ 7,220,359	$ (17,294,255)	$ (88,146)	$ 16,637,683	$ 6,475,781

See Notes to Condensed Consolidated Financial Statements

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	Three Months Ended December 27, 2020						
	Common Stock Shares	**Common Stock**	**Additional Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total**
Balance at September 27, 2020	144,593	$ 145	$ 6,761,545	$ (13,416,986)	$ (82,672)	$ 12,157,153	$ 5,419,185
Issuance of common stock	100	—	8,108	—	—	—	8,108
Purchase of treasury stock	(1,796)	(2)	—	(727,742)	—	—	(727,744)
Reissuance of treasury stock	207	—	32,261	9,173	—	—	41,434
Equity-based compensation expense	—	—	52,109	—	—	—	52,109
Effect of conversion of convertible notes	101	—	(134)	—	—	—	(134)
Reclassification from temporary to permanent equity	—	—	792	—	—	—	792
Net income	—	—	—	—	—	869,229	869,229
Other comprehensive income	—	—	—	—	26,546	—	26,546
Cash dividends declared ($1.30 per common share)	—	—	—	—	—	(186,492)	(186,492)
Balance at December 27, 2020	143,205	$ 143	$ 6,854,681	$ (14,135,555)	$ (56,126)	$ 12,839,890	$ 5,503,033

	Six Months Ended December 27, 2020						
	Common Stock Shares	**Common Stock**	**Additional Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total**
Balance at June 28, 2020	145,331	$ 145	$ 6,695,858	$ (12,949,889)	$ (94,211)	$ 11,520,591	$ 5,172,494
Issuance of common stock	205	—	13,646	—	—	—	13,646
Purchase of treasury stock	(3,156)	(3)	—	(1,194,839)	—	—	(1,194,842)
Reissuance of treasury stock	207	—	32,261	9,173	—	—	41,434
Equity-based compensation expense	—	—	108,097	—	—	—	108,097
Effect of conversion of convertible notes	618	1	(661)	—	—	—	(660)
Reclassification from temporary to permanent equity	—	—	5,480	—	—	—	5,480
Adoption of ASU 2018-18	—	—	—	—	—	1,157	1,157
Net income	—	—	—	—	—	1,692,680	1,692,680
Other comprehensive income	—	—	—	—	38,085	—	38,085
Cash dividends declared ($2.60 per common share)	—	—	—	—	—	(374,538)	(374,538)
Balance at December 27, 2020	143,205	$ 143	$ 6,854,681	$ (14,135,555)	$ (56,126)	$ 12,839,890	$ 5,503,033

See Notes to Condensed Consolidated Financial Statements

LAM RESEARCH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 26, 2021
(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 27, 2021, which are included in the Company's Annual Report on Form 10-K as of and for the year ended June 27, 2021 (the "2021 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 26, 2022 and includes 52 weeks. The quarters ended December 26, 2021 (the "December 2021 quarter") and December 27, 2020 included 13 weeks.

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted

The Company did not adopt any new accounting standards during the first quarter of fiscal year 2022 that had a material impact on the Company's Condensed Consolidated Financial Statements.

Updates Not Yet Adopted or Effective

In November 2021, the Financial Accounting Standards Board issued Accounting Standards Update 2021-10, "Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance," which requires business entities to make annual disclosures, including the nature of transactions and the related accounting policy used to account for the transactions, significant terms and conditions, and line items affected, about transactions with a government (including government assistance) that are accounted for by analogizing to a grant or contribution accounting model. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2021, with early adoption permitted. The Company is required to adopt this standard in the first quarter of fiscal year 2023 for the annual reporting period ending June 25, 2023. The guidance may be applied either prospectively to all in-scope transactions at the date of initial application or retrospectively. The Company is currently in the process of evaluating the impact of adoption on its Consolidated Financial Statements.

NOTE 3 — REVENUE

Deferred Revenue

Revenue of $191.0 million and $756.7 million included in deferred revenue as of June 27, 2021 was recognized during the three and six months ended December 26, 2021.

The following table summarizes the transaction price for contracts that have not yet been recognized as revenue as of December 26, 2021 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	$ 1,294,628	$ 163,533 [1]	$ —	$ 1,458,161

(1) This amount is reported in Deferred profit on the Company's Condensed Consolidated Balance Sheets as the customers can demand the liability to be performed 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, and logic/integrated device manufacturing.

The following table presents the Company’s revenues disaggregated between system and its customer support-related revenue:

	Three Months Ended		Six Months Ended	
	December 26, 2021	**December 27, 2020**	**December 26, 2021**	**December 27, 2020**
	(In thousands)			
System revenue	$ 2,740,173	$ 2,307,421	$ 5,665,056	$ 4,455,662
Customer support-related revenue and other	1,486,431	1,148,816	2,866,013	2,177,655
	$ 4,226,604	$ 3,456,237	$ 8,531,069	$ 6,633,317

System revenue includes sales of new leading-edge equipment in deposition, etch and clean markets.

Customer support-related revenue includes sales of customer service, spares, upgrades, and non-leading-edge equipment from the Company’s Reliant product line.

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

	Three Months Ended		Six Months Ended	
	December 26, 2021	**December 27, 2020**	**December 26, 2021**	**December 27, 2020**
	(In thousands)			
China	$ 1,080,973	$ 1,208,185	$ 2,688,683	$ 2,382,854
Korea	1,068,220	712,525	1,986,357	1,468,782
Taiwan	773,121	584,299	1,411,187	1,030,390
Japan	513,936	344,023	982,667	736,549
Southeast Asia	364,382	365,458	729,630	568,797
United States	244,798	137,492	473,009	275,384
Europe	181,174	104,255	259,536	170,561
	$ 4,226,604	$ 3,456,237	$ 8,531,069	$ 6,633,317

The following table presents the percentages of leading- and non-leading-edge equipment and upgrade revenue to each of the primary markets the Company serves:

	Three Months Ended		Six Months Ended	
	December 26, 2021	**December 27, 2020**	**December 26, 2021**	**December 27, 2020**
Memory	58 %	68 %	61 %	63 %
Foundry	31 %	26 %	28 %	31 %
Logic/integrated device manufacturing	11 %	6 %	11 %	6 %

NOTE 4 — EQUITY-BASED COMPENSATION PLANS

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 option, 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		Six Months Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
	(in thousands)			
Equity-based compensation expense	$ 62,834	$ 52,109	$ 120,933	$ 108,097
Income tax benefit recognized related to equity-based compensation expense	$ 9,014	$ 9,911	$ 17,222	$ 19,788

NOTE 5 — OTHER INCOME (EXPENSE), NET

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

	Three Months Ended		Six Months Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
	(in thousands)			
Interest income	$ 2,372	$ 4,796	$ 7,050	$ 11,755
Interest expense	(46,765)	(52,551)	(91,821)	(104,666)
(Losses) Gains on deferred compensation plan-related assets, net	(56)	24,207	7,381	37,134
Foreign exchange gains (losses), net	731	(3,763)	714	(5,138)
Other, net	61,717	(2,630)	65,818	(7,818)
	$ 17,999	$ (29,941)	$ (10,858)	$ (68,733)

Other, net includes an unrealized gain totaling $46.6 million associated with an equity investee that became publicly traded during the three and six months ended December 26, 2021. Refer to Note 8 - Financial Instruments for additional information regarding the Company's investments.

NOTE 6 — INCOME TAX EXPENSE

The Company's provision for income taxes and effective tax rate are as follows:

	Three Months Ended		Six Months Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
	(in thousands, except percentages)			
Income tax expense	$ 161,308	$ 110,554	$ 324,940	$ 209,375
Effective tax rate	11.9 %	11.3 %	12.0 %	11.0 %

The difference between the U.S. federal statutory tax rate of 21% and the Company's effective tax rate for the three and six months ended December 26, 2021 and December 27, 2020 was primarily due to income in lower tax jurisdictions.
The Company transferred its international sales operations from Switzerland to Malaysia, effective from fiscal year 2022. Through fiscal year 2036, the Company expects to operate under various tax incentives in Malaysia which provide exemptions on foreign income earned and are contingent upon meeting certain conditions.

The Internal Revenue Service ("IRS") is examining the Company's U.S. federal income tax return for the fiscal year ended June 24, 2018. As of December 26, 2021, no significant adjustments have been proposed by the IRS. The Company is unable to make a reasonable estimate as to when cash settlements, if any, with the IRS will occur.

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 uncertain tax positions as a result of tax examinations or lapses of statutes of limitation. The change in uncertain tax positions as a result of lapses of statutes of limitation may range up to $11.8 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, and convertible notes. The following table reconciles the inputs to the basic and diluted computations for net income per share.

	Three Months Ended		Six Months Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
	(in thousands, except per share data)			
Numerator:				
Net income	$ 1,194,830	$ 869,229	$ 2,374,574	$ 1,692,680
Denominator:				
Basic average shares outstanding	140,630	143,830	141,187	144,549
Effect of potential dilutive securities:				
Employee stock plans	900	1,293	884	1,202
Convertible notes	—	787	—	828
Diluted average shares outstanding	141,530	145,910	142,071	146,579
Net income per share - basic	$ 8.50	$ 6.04	$ 16.82	$ 11.71
Net income per share - diluted	$ 8.44	$ 5.96	$ 16.71	$ 11.55

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 impact from potentially dilutive securities, including options and RSUs, was not material for the three and six months ended December 26, 2021 and December 27, 2020.

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), net in the Condensed Consolidated Statements of Operations. All of the Company's debt securities are classified as available-for-sale and consequently are recorded in the Condensed Consolidated Balance Sheets at fair value with unrealized gains or losses associated with market valuation changes, unrelated to credit losses, reported as a separate component of accumulated other comprehensive income (loss), net of tax; and credit losses, if any, recognized as other income (expense), net in the Condensed Consolidated Statements of Operations.

The Company periodically invests in equity securities. For equity investments that do not have a readily determinable fair value, the Company records them using either 1) the measurement alternative which measures the equity investments at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes; or 2) the equity method whereby the Company recognizes its proportional share of the income or loss from the equity method investment on a one-quarter lag. The equity method is utilized when the Company does not have the ability to control the investee but is deemed to have the ability to exercise significant influence over the investee's operating or financial policies. For equity investments that have a readily determinable fair value, the Company records them at fair market value on a recurring basis based upon quoted market prices. Realized and unrealized gains and losses resulting from application of the measurement alternative, the impact of the application of the equity method to the Company's equity investments, and recognition of changes in fair market value, as applicable, are recognized as other income (expense), net in the Condensed Consolidated Statements of Operations.

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 engages with pricing vendors to provide fair values for a majority of its Level 1 and Level 2 investments. The vendors provide either a quoted market price in an active market or use observable inputs without applying significant adjustments in their pricing. Significant observable inputs include interest rates and yield curves observable at commonly quoted intervals, volatility and credit risks. The fair value of derivative contracts is determined using observable market inputs such as the foreign currency rates, forward rate curves, currency volatility and interest rates and considers nonperformance risk of the Company and its counterparties.

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 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 lease obligations approximate their carrying value as the 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.

Investments

Equity Investments measured at fair value on a non-recurring basis

As of December 26, 2021, and June 27, 2021, equity investments of $141.1 million and $117.3 million, respectively, were recognized in other assets in the Condensed Consolidated Balance Sheets.

With the exception of one equity investee that became publicly traded during the three and six months ended December 26, 2021, net gains resulting from the application of the measurement alternative to the Company's equity investments were immaterial for the three and six months ended December 26, 2021, and December 27, 2020. Refer to Note 5 - Other Income (Expense), net for additional information regarding the gain associated with an equity investee that became publicly traded in the three and six months ended December 26, 2021. Additionally, following the equity investee becoming publicly traded, the Company began measuring the investment at fair market value on a recurring basis in the category corporate equities.

Debt and Equity Investments measured at fair value on a recurring basis

The following tables set 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 December 26, 2021, and June 27, 2021:

	December 26, 2021							
					(Reported Within)			
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Cash and Cash Equivalents	Investments	Restricted Cash & Investments	Other Assets
	(in thousands)							
Cash	$ 1,064,038	$ —	$ —	$ 1,064,038	$ 1,063,202	$ —	$ 836	$ —
Time deposits	2,138,568	—	—	2,138,568	1,888,541	—	250,027	—
Level 1:								
Money market funds	2,071,421	—	—	2,071,421	2,071,421	—	—	—
Corporate equities	3,000	46,633	—	49,633	—	—	—	49,633
Mutual funds	89,524	19,236	(126)	108,634	—	—	—	108,634
Level 1 Total	2,163,945	65,869	(126)	2,229,688	2,071,421	—	—	158,267
Level 2:								
Corporate notes and bonds	301,790	13	(126)	301,677	63,380	238,297	—	—
Mortgage backed securities — commercial	4,294	—	(1)	4,293	—	4,293	—	—
Level 2 Total	306,084	13	(127)	305,970	63,380	242,590	—	—
Total	$ 5,672,635	$ 65,882	$ (253)	$ 5,738,264	$ 5,086,544	$ 242,590	$ 250,863	$ 158,267

	June 27, 2021							
					(Reported Within)			
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Cash and Cash Equivalents	Investments	Restricted Cash & Investments	Other Assets
	(in thousands)							
Cash	$ 875,738	$ —	$ —	$ 875,738	$ 873,278	$ —	$ 2,460	$ —
Time deposits	1,548,874	—	—	1,548,874	1,298,847	—	250,027	—
Level 1:								
Money market funds	2,246,138	—	—	2,246,138	2,246,138	—	—	—
U.S. Treasury and agencies	204,743	96	(47)	204,792	—	204,792	—	—
Mutual funds	80,694	15,510	(33)	96,171	—	—	—	96,171
Level 1 Total	2,531,575	15,606	(80)	2,547,101	2,246,138	204,792	—	96,171
Level 2:								
Government-sponsored enterprises	3,498	7	—	3,505	—	3,505	—	—
Foreign government bonds	32,995	21	(4)	33,012	—	33,012	—	—
Corporate notes and bonds	1,043,308	2,247	(457)	1,045,098	—	1,045,098	—	—
Mortgage backed securities — residential	5,623	54	—	5,677	—	5,677	—	—
Mortgage backed securities — commercial	18,830	17	(59)	18,788	—	18,788	—	—
Level 2 Total	1,104,254	2,346	(520)	1,106,080	—	1,106,080	—	—
Total	$ 6,060,441	$ 17,952	$ (600)	$ 6,077,793	$ 4,418,263	$ 1,310,872	$ 252,487	$ 96,171

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 evaluates its investments with fair value less than amortized cost by first considering whether the Company has the intent to sell the security or whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. In either such situation, the difference between fair value and amortized cost is recognized as a loss in the income statement. Where such sales are not likely to occur, the Company considers whether a portion of the loss is the result of a credit loss. To the extent such losses are the result of credit losses, those amounts are recognized in the income statement. All other differences between fair value and amortized cost are recognized in other comprehensive income. No such losses were recognized through the income statement during the three and six months ended December 26, 2021 and December 27, 2020.

Gross realized gains/(losses) from sales of investments were insignificant in the three and six months ended December 26, 2021 and December 27, 2020.

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

	December 26, 2021					
	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)					
Mutual funds	7,408	(55)	1,998	(71)	9,406	(126)
Corporate notes and bonds	180,892	(126)	—	—	180,892	(126)
Mortgage backed securities — commercial	2,997	(1)	—	—	2,997	(1)
	$ 191,297	$ (182)	$ 1,998	$ (71)	$ 193,295	$ (253)

The amortized cost and fair value of cash equivalents, investments, and restricted investments with contractual maturities are as follows as of December 26, 2021:

	Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 4,383,362	$ 4,383,338
Due after one year through five years	118,352	118,267
Due in more than five years	14,359	14,354
	$ 4,516,073	$ 4,515,959

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 12 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.

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 December 26, 2021 and June 27, 2021, the potential effect of rights of offset associated with the above foreign exchange and interest rate contracts would be immaterial to the Condensed Consolidated Balance Sheets.

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. 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 affect earnings.

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 income (loss) and is amortized into income as the hedged item affects 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.

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 earnings immediately.

As of December 26, 2021 and June 27, 2021, the fair value of outstanding cash flow hedges was not material. Additionally, as of December 26, 2021, the Company had an immaterial net gain or loss accumulated in other comprehensive income, net of tax, related to foreign exchange cash flow hedges and interest rate contracts which it expects to reclassify from other comprehensive income into earnings over the next 12 months.

The following table provides the total notional value of cash flow hedge instruments outstanding as of December 26, 2021:

	December 26, 2021
	(In thousands)
Buy Contracts	$ 415,277
Sell Contracts	410,812

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 December 26, 2021		Six Months Ended December 26, 2021	
Derivatives in Cash Flow Hedging Relationships	**Location of Gain or (Loss) Recognized in or Reclassified into Net Income**	**Gain (Loss) Recognized in AOCI**	**Gain (Loss) Reclassified from AOCI into Net Income**	**Gain (Loss) Recognized in AOCI**	**Gain (Loss) Reclassified from AOCI into Net Income**
		(in thousands)			
Foreign Exchange Contracts	Revenue	$ 20,377	$ 11,105	$ 14,441	$ 16,368
Foreign Exchange Contracts	Cost of goods sold	(6,373)	(2,225)	(10,134)	(2,868)
Foreign Exchange Contracts	Research and Development	2	—	(1,247)	—
Foreign Exchange Contracts	Selling, general, and administrative	(2,097)	(521)	(3,411)	(547)
Interest Rate Contracts	Other income (expense), net	—	(1,057)	—	(2,108)
		$ 11,909	$ 7,302	$ (351)	$ 10,845

		Three Months Ended December 27, 2020		Six Months Ended December 27, 2020	
Derivatives in Cash Flow Hedging Relationships	**Location of Gain or (Loss) Recognized in or Reclassified into Income**	**(Loss) Gain Recognized in AOCI**	**(Loss) Gain Reclassified from AOCI into Net Income**	**(Loss) Gain Recognized in AOCI**	**(Loss) Gain Reclassified from AOCI into Net Income**
		(in thousands)			
Foreign Exchange Contracts	Revenue	$ (5,056)	$ (1,440)	$ (8,337)	$ (2,275)
Foreign Exchange Contracts	Cost of goods sold	5,809	1,158	6,902	1,718
Foreign Exchange Contracts	Research and Development	1,875	—	2,269	—
Foreign Exchange Contracts	Selling, general, and administrative	4,157	1,018	5,797	1,323
Interest Rate Contracts	Other income (expense), net	—	(957)	—	(1,909)
		$ 6,785	$ (221)	$ 6,631	$ (1,143)

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 the carrying value of these derivatives is recorded as a component of other income (expense), net and offsets the change in fair value of the foreign currency denominated assets and liabilities related to remeasurement, which are also recorded in other income (expense), net. As of December 26, 2021 and June 27, 2021, the fair value of outstanding balance sheet hedges was not material.

The following table provides the total notional value of balance sheet hedge instruments outstanding as of December 26, 2021:

		December 26, 2021
		(In thousands)
Buy Contracts	$	250,827
Sell Contracts		308,228

The effect of the Company's balance sheet hedge derivative instruments on the Company's Condensed Consolidated Statements of Operations was as follows:

		Three Months Ended				Six Months Ended			
		December 26, 2021		December 27, 2020		December 26, 2021		December 27, 2020	
Derivatives Not Designated as Hedging Instruments:	**Location of Gain Recognized in Income**	**Gain Recognized in Net Income**		**Gain Recognized in Net Income**		**Gain Recognized in Net Income**		**Gain Recognized in Net Income**	
		(in thousands)							
Foreign Exchange Contracts	Other income (expense), net	$	3,417	$	1,156	$	9,937	$	3,903

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.

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:

		December 26, 2021		June 27, 2021
		(in thousands)		
Raw materials	$	1,847,498	$	1,519,456
Work-in-process		385,042		391,686
Finished goods		841,637		778,152
	$	3,074,177	$	2,689,294

NOTE 10 — GOODWILL AND INTANGIBLE ASSETS

Goodwill

The balance of goodwill is approximately $1.5 billion as of December 26, 2021 and June 27, 2021. As of December 26, 2021 and June 27, 2021, $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, other than goodwill:

	December 26, 2021			June 27, 2021		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Customer relationships	$ 630,222	$ (605,575)	$ 24,647	$ 630,303	$ (581,406)	$ 48,897
Existing technology	669,179	(661,902)	7,277	669,359	(659,898)	9,461
Patents and other intangible assets	151,029	(70,876)	80,153	132,774	(58,767)	74,007
Total intangible assets	$ 1,450,430	$ (1,338,353)	$ 112,077	$ 1,432,436	$ (1,300,071)	$ 132,365

The Company recognized $19.5 million and $17.6 million in intangible asset amortization expense during the three months ended December 26, 2021 and December 27, 2020, respectively. The Company recognized $38.6 million and $34.5 million in intangible asset amortization expense during the six months ended December 26, 2021 and December 27, 2020, respectively.

The estimated future amortization expense of intangible assets as of December 26, 2021, is reflected in the table below. The table excludes $17.5 million of capitalized costs for internal-use software that have not been placed into service.

Fiscal Year	Amount
	(in thousands)
2022 (remaining 6 months)	$ 36,198
2023	28,653
2024	17,510
2025	8,588
2026	2,755
Thereafter	857
	$ 94,561

NOTE 11 — ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 26, 2021	June 27, 2021
	(in thousands)	
Accrued compensation	$ 677,946	$ 552,925
Warranty reserves	209,594	176,030
Income and other taxes payable	147,779	348,206
Dividend payable	210,587	185,431
Other	524,500	456,891
	$ 1,770,406	$ 1,719,483

NOTE 12 — LONG-TERM DEBT AND OTHER BORROWINGS

As of December 26, 2021, and June 27, 2021, the Company's outstanding debt consisted of the following:

	December 26, 2021		June 27, 2021	
	Amount (in thousands)	Effective Interest Rate	Amount (in thousands)	Effective Interest Rate
Fixed-rate 3.80% Senior Notes Due March 15, 2025 ("2025 Notes")	500,000	3.87 %	500,000	3.87 %
Fixed-rate 3.75% Senior Notes Due March 15, 2026 ("2026 Notes")	750,000	3.86 %	750,000	3.86 %
Fixed-rate 4.00% Senior Notes Due March 15, 2029 ("2029 Notes")	1,000,000	4.09 %	1,000,000	4.09 %
Fixed-rate 1.90% Senior Notes Due June 15, 2030 ("2030 Notes")	750,000	2.01 %	750,000	2.01 %
Fixed-rate 4.875% Senior Notes Due March 15, 2049 ("2049 Notes")	750,000	4.93 %	750,000	4.93 %
Fixed-rate 2.875% Senior Notes Due June 15, 2050 ("2050 Notes")	750,000	2.93 %	750,000	2.93 %
Fixed-rate 3.125% Senior Notes Due June 15, 2060 ("2060 Notes")	500,000	3.18 %	500,000	3.18 %
Total debt outstanding, at par	5,000,000		5,000,000	
Unamortized discount	(36,945)		(38,243)	
Fair value adjustment - interest rate contracts	5,728 (1)		6,621 (1)	
Unamortized bond issuance costs	(7,138)		(7,443)	
Total debt outstanding, at carrying value	$ 4,961,645		$ 4,960,935	
Reported as:				
Long-term debt	$ 4,961,645		$ 4,960,935	

(1) This amount represents a cumulative fair value gain for discontinued hedging relationships, net of an immaterial amount of amortization as of the periods presented.

Senior Notes

On May 5, 2020, the Company completed a public offering of $750 million aggregate principal amount of the Company's Senior Notes due June 15, 2030 (the "2030 Notes"), $750 million aggregate principal amount of the Company's Senior Notes due June 15, 2050 (the "2050 Notes"), and $500 million aggregate principal amount of the Company's Senior Notes due June 15, 2060 (the "2060 Notes"). The Company pays interest at an annual rate of 1.90%, 2.875%, and 3.125%, on the 2030, 2050, and 2060 Notes, respectively, on a semi-annual basis on June 15 and December 15 of each year.

On March 4, 2019, the Company completed a public offering of $750 million aggregate principal amount of the Company's Senior Notes due March 15, 2026 (the "2026 Notes"), $1.0 billion aggregate principal amount of the Company's Senior Notes due March 15, 2029 (the "2029 Notes"), and $750 million aggregate principal amount of the Company's Senior Notes due March 15, 2049 (the "2049 Notes"). The Company pays interest at an annual rate of 3.75%, 4.00%, and 4.875%, on the 2026, 2029, and 2049 Notes, respectively, on a semi-annual basis on March 15 and September 15 of each year.

On March 12, 2015, the Company completed a public offering of $500 million aggregate principal amount of the Company's Senior Notes due March 15, 2025 (the "2025 Notes"). The Company pays interest at an annual rate of 3.80% on the 2025 Notes on a semi-annual basis on March 15 and September 15 of each year.

The Company may redeem the 2025, 2026, 2029, 2030, 2049, 2050, and 2060 Notes (collectively 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 to the Senior Notes and accrued and unpaid interest before December 15, 2024 for the 2025 Notes, before January 15, 2026 for the 2026 Notes, before December 15, 2028 for the 2029 Notes, before March 15, 2030 for the 2030 Notes, before September 15, 2048 for the 2049 Notes, before December 15, 2049 for the 2050 Notes, and before December 15, 2059 for the 2060 Notes. The Company may redeem the Senior Notes at par, plus accrued and unpaid interest at any time on or after December 24, 2024 for the 2025 Notes, on or after January 15, 2026 for the 2026 Notes, on or after December 15, 2028 for the 2029 Notes, on or after March 15, 2030 for the 2030 Notes, on or after September 15, 2048 for the 2049 Notes, on or after December 15, 2049 for the 2050 Notes, and on or after December 15, 2059 for the 2060 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 respective note, plus accrued and unpaid interest.

Selected additional information regarding the Senior Notes outstanding as of December 26, 2021, is as follows:

	Remaining Amortization period	Fair Value of Notes (Level 2)
	(years)	(in thousands)
2025 Notes	3.2	$ 537,095
2026 Notes	4.2	$ 817,688
2029 Notes	7.2	$ 1,122,620
2030 Notes	8.5	$ 738,278
2049 Notes	27.2	$ 1,020,758
2050 Notes	28.5	$ 749,880
2060 Notes	38.5	$ 512,775

Revolving Credit Facility

On March 12, 2014, the Company established an unsecured Credit Agreement. This agreement was amended on November 10, 2015 (the "Amended and Restated Credit Agreement"), October 13, 2017 (the "2nd Amendment"), February 25, 2019 (the "3rd Amendment"), and June 17, 2021 (the "Second Amended and Restated Credit Agreement"). The Second Amended and Restated Credit Agreement provides for a $1.50 billion revolving credit facility with a syndicate of lenders, along with an expansion option that will allow the Company, subject to certain requirements, to request an increase in the facility of up to an additional $600.0 million, for a potential total commitment of $2.10 billion. The facility matures on June 17, 2026.

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 0.00% to 0.30%, or (2) LIBOR multiplied by the statutory rate, plus a spread of 0.805% to 1.30%, in each case plus a facility fee, with such spread and facility fee determined based on the rating of the Company's non-credit enhanced, senior unsecured long-term debt. Such spreads and such facility fees are further subject to sustainability adjustments as described in the Second Amended and Restated Credit Agreement, in each case based on the Company's performance of certain energy savings and health and safety standards metrics. 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 Second Amended and Restated Credit Agreement incorporates provisions for the replacement of LIBOR or other reference rates with alternative reference rates under certain circumstances, including when, or if, such reference rates cease to be available. The Second Amended and Restated Credit Agreement contains affirmative covenants, negative covenants, financial covenants, and events of default. As of December 26, 2021, the Company had no borrowings outstanding under the credit facility and was in compliance with all financial covenants.

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. In July 2021, the Company amended the CP Program size to a maximum aggregate amount outstanding at any time of $1.50 billion. The net proceeds from the CP Program will be used for general corporate purposes, including repurchases of the Company's Common Stock from time to time under the Company's stock repurchase program. Amounts available under the CP Program may be re-borrowed. The CP Program is backstopped by the Company's Revolving Credit Arrangement. As of December 26, 2021 and June 27, 2021, the Company had no outstanding borrowings under the CP Program.

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, and the revolving credit facility during the three and six months ended December 26, 2021 and December 27, 2020.

	Three Months Ended		Six Months Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
	(in thousands)			
Contractual interest coupon	$ 43,782	$ 49,515	$ 87,564	$ 99,086
Amortization of interest discount	690	1,001	1,373	2,013
Amortization of issuance costs	336	413	671	824
Effect of interest rate contracts, net	611	511	1,216	1,017
Total interest cost recognized	$ 45,419	$ 51,440	$ 90,824	$ 102,940

NOTE 13 — LEASES

The Company leases certain office spaces, manufacturing and warehouse spaces, equipment, and vehicles. While the majority of the Company’s lease arrangements are operating leases, the Company has certain leases that qualify as finance leases.

Selected Leases and Related Guarantees

The Company leases the majority of its administrative, research and development and manufacturing facilities, regional sales/service offices, and certain equipment under non-cancelable 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 finance leases for certain improved properties in Fremont and Livermore, California (the “California Facility Leases”). The Company is 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 December 26, 2021.

During the seven-year term of the California Facility Leases and when the terms of the California Facility Leases expire, the property subject to the California Facility Leases may be re-marketed. The Company has guaranteed to the lessor that each property will have a certain minimum residual value. The aggregate maximum guarantee made by the Company under the California Facility Leases is $298.4 million.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

Refer to Note 13 - Leases for details regarding guarantees surrounding selected leases.

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 insurance contracts that are intended to limit its exposure to such indemnifications. As of December 26, 2021, the Company had not recorded any liability on its Condensed Consolidated Financial Statements in connection with these indemnifications, as it does not believe that it is probable that any material 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 December 26, 2021, the maximum potential amount of future payments that the Company could be required to make under these arrangements and letters of credit was $82.2 million. 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.

In addition, the Company has entered into indemnification agreements with its directors, officers, and certain other employees, consistent with its Bylaws and Certificate of Incorporation; and under local law, the Company may be required to provide indemnification to 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 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. As of December 26, 2021, warranty reserves totaling $18.8 million were recognized in other long-term liabilities, the remainder were included in accrued expenses and other current liabilities in the Company's Condensed Consolidated Balance Sheets.

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

	Three Months Ended		Six Months Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
	(in thousands)			
Balance at beginning of period	$ 214,244	$ 136,860	$ 191,758	$ 129,197
Warranties issued during the period	71,437	57,602	142,109	103,646
Settlements made during the period	(68,126)	(41,539)	(128,418)	(77,670)
Changes in liability for pre-existing warranties	10,833	291	22,939	(1,959)
Balance at end of period	$ 228,388	$ 153,214	$ 228,388	$ 153,214

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 of any material amount for litigation or other contingencies related to existing legal proceedings.

NOTE 15 — STOCK REPURCHASE PROGRAM

In November 2020, the Board of Directors authorized the Company to repurchase up to an additional $5.0 billion of Common Stock; this authorization 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. 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 27, 2021				$ 4,222,220
Quarter ended September 26, 2021	1,725	$ 1,209,744	$ 608.98	$ 3,012,476
Quarter ended December 26, 2021	677	$ 429,983	$ 634.74	$ 2,582,493

(1) Average price paid per share excludes the effect of accelerated share repurchase activities. See additional disclosure below regarding the Company's accelerated share repurchase activity during the six months ended December 26, 2021.

In addition to the shares repurchased under the Board-authorized repurchase program shown above, during the three and six months ended December 26, 2021, the Company acquired 8 thousand shares at a total cost of $4.8 million and 20 thousand shares at a total cost of $11.9 million, respectively, 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.

Accelerated Share Repurchase Agreements

On August 31, 2021, the Company entered into an accelerated share repurchase agreement (the "August 2021 ASR") with two financial institutions to repurchase a total of $650 million of Common Stock. The Company took an initial delivery of approximately 806 thousand shares, which represented 75% of the prepayment amount divided by the Company's closing stock price on August 31, 2021. The total number of shares received under the August 2021 ASR was 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 of the August 2021 ASR occurred in January 2022, subsequent to the Company's December 26, 2021 fiscal quarter end, resulting in the receipt of approximately 265 thousand additional shares, which yielded a weighted-average share price of $606.71 for the transaction period.

NOTE 16 — ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss, net of tax at December 26, 2021, as well as the activity for the six months ending December 26, 2021, 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 at June 27, 2021	$ (31,413)	$ (14,125)	$ 1,611	$ (20,201)	$ (64,128)
Other comprehensive (loss) income before reclassifications	(13,852)	3,787	(3,190)	(807)	(14,062)
(Gains) losses reclassified from accumulated other comprehensive loss to net income (1)	—	(11,446)	1,490	—	(9,956)
Net current-period other comprehensive loss	(13,852)	(7,659)	(1,700)	(807)	(24,018)
Balance at December 26, 2021	$ (45,265)	$ (21,784)	$ (89)	$ (21,008)	$ (88,146)

(1) Amount of after-tax gains reclassified from AOCI into net income is not material in the aggregate, or to any individual location in our Condensed Consolidated Statements of Operations.

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; trends and opportunities in the semiconductor industry, including in the end markets and applications for semiconductors, and in device complexity; growth or decline in the industry and the market for, and spending on, wafer fabrication equipment; 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; the makeup of our customer base; customer and end user requirements and our ability to satisfy those requirements; customer spending and 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 products and services; our competition, and our ability to defend our market share and to gain new market share; the success of joint development and collaboration relationships with customers, suppliers, or others; outsourced activities; our supply chain and the role of suppliers in our business, including the impacts of supply chain constraints and material costs; our leadership and competency, and our ability to facilitate innovation; our research and development programs; our ability to create sustainable differentiation; technology inflections in the industry and our ability to identify those inflections and to invest in research and development programs to meet them; our ability to deliver multi-product solutions; the resources invested to comply with evolving standards and the impact of such efforts; changes in state, federal and international tax laws, our estimated annual tax rate and the factors that affect our tax rates; 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); hedging transactions; debt or financing arrangements; 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; our strategic relevance with our customers; our ability to scale our operations to respond to changes in our business; the value of our patents; the materiality of potential losses arising from legal proceedings; the probability of making payments under our guarantees; the impact of the COVID-19 pandemic; and the sufficiency of our financial resources or liquidity to support future business activities (including but not limited to operations, investments, debt service requirements, dividends, 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 27, 2021 (our "2021 Form 10-K"), our quarterly report on form 10-Q for the fiscal quarter ended September 26, 2021, 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 and six months ended December 26, 2021, 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 2021 Form 10-K.

EXECUTIVE SUMMARY

Lam Research Corporation 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 and better performing devices that are used in a variety of electronic products, including mobile phones, personal computers, servers, wearables, automotive vehicles, and data storage devices.

Our customer base includes leading semiconductor memory, foundry, and integrated device manufacturers that make products such as non-volatile memory, dynamic random-access memory, and logic devices. Their continued success is part of our commitment to driving semiconductor breakthroughs that define the next generation. 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 cloud computing, the 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 two-dimensional scaling. These trends are driving significant inflections in semiconductor manufacturing, such as the increasing importance of vertical scaling strategies like three-dimensional architecture 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. Our Customer Support Business Group provides products and services to maximize installed equipment performance, predictability, and operational efficiency. 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 semi-ecosystem partners; and (iv) our ability to identify and invest in the breadth of our product portfolio to meet technology inflections; and (v) our focus on delivering our multi-product solutions with a goal to enhance the value of Lam's solutions to our customers.

In calendar year 2021, there were higher investments in wafer fabrication equipment spending driven by increasing device manufacturing complexity and the robust secular demand for semiconductors in a number of markets including artificial intelligence, 5G networks, high-performance computing, and Internet of Things. During the quarter-ended December 26, 2021, customer demand remained strong, however, we experienced supply chain constraints, and we expect these constraints to continue in the near term. Risks and uncertainties related to the COVID-19 pandemic remain, which may continue to negatively impact our revenue and gross margin. Over the longer term, we believe that secular demand for semiconductors will continue to drive sustainable growth for our products and services, and 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 the served addressable market for our products and services in the deposition, etch, and clean businesses.

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

	Three Months Ended	
	December 26, 2021	September 26, 2021
	(in thousands, except per share data and percentages)	
Revenue	$ 4,226,604	$ 4,304,465
Gross margin	$ 1,977,916	$ 1,976,754
Gross margin as a percent of total revenue	46.8 %	45.9 %
Total operating expenses	$ 639,777	$ 604,521
Net income	$ 1,194,830	$ 1,179,744
Diluted net income per share	$ 8.44	$ 8.27

In the December 2021 quarter, revenue decreased 2% compared to the September 2021 quarter, primarily as a result of supplier-related delays of critical parts given broad supply chain issues in the industry, partially offset by increased revenue for the customer support-related business. The increase in gross margin as a percentage of revenue in the December 2021 quarter compared to the September 2021 quarter was primarily driven improved customer and product mix, manufacturing-related spending reduction, and improved factory absorption and field utilization, partially offset by increased variable compensation. The increase in operating expenses in the December 2021 quarter compared to the September 2021 quarter was mainly driven by increases in employee-related expenses, rent expense and supplies expense, partially offset by decreases in outside services.

Our cash and cash equivalents, investments, and restricted cash and investments balances increased to $5.6 billion at the end of the December 2021 quarter compared to $4.9 billion at the end of the September 2021 quarter. This increase was primarily the result of $1.4 billion of cash generated from operating activities, partially offset by $414.8 million of share repurchases, including net share settlement on employee stock-based compensation; $211.2 million of dividends paid to stockholders; and $138.5 million of capital expenditures. Employee headcount as of December 26, 2021 was approximately 16,300.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended		Six Months Ended	
	December 26, 2021	September 26, 2021	December 26, 2021	December 27, 2020
Revenue (in millions)	$ 4,227	$ 4,304	$ 8,531	$ 6,633
China	26 %	37 %	31 %	36 %
Korea	25 %	21 %	23 %	22 %
Taiwan	18 %	15 %	17 %	16 %
Japan	12 %	11 %	11 %	11 %
Southeast Asia	9 %	8 %	9 %	8 %
United States	6 %	6 %	6 %	4 %
Europe	4 %	2 %	3 %	3 %

Revenue for the December 2021 quarter decreased 2% from the September 2021 quarter, due to supplier-related delays of critical parts given broad supply chain issues in the industry, partially offset by increased revenue for the customer support-related business.

The following table presents our revenue disaggregated between system and customer support-related revenue:

	Three Months Ended		Six Months Ended	
	December 26, 2021	September 26, 2021	December 26, 2021	December 27, 2020
	(In thousands)			
System revenue	$ 2,740,173	$ 2,924,883	$ 5,665,056	$ 4,455,662
Customer support-related revenue and other	1,486,431	1,379,582	2,866,013	2,177,655
	$ 4,226,604	$ 4,304,465	$ 8,531,069	$ 6,633,317

Please refer to Note 3, “Revenue,” to the Condensed Consolidated Financial Statements of this Form 10-Q for additional information regarding the composition of the two categories into which revenue has been disaggregated.

The following table presents the percentages of leading- and non-leading-edge equipment and upgrade revenue to each of the primary markets we serve:

	Three Months Ended		Six Months Ended	
	December 26, 2021	September 26, 2021	December 26, 2021	December 27, 2020
Memory	58 %	64 %	61 %	63 %
Foundry	31 %	25 %	28 %	31 %
Logic/integrated device manufacturing	11 %	11 %	11 %	6 %

Gross Margin

	Three Months Ended		Six Months Ended	
	December 26, 2021	September 26, 2021	December 26, 2021	December 27, 2020
	(in thousands, except percentages)			
Gross margin	$ 1,977,916	$ 1,976,754	$ 3,954,670	$ 3,109,974
Percent of revenue	46.8 %	45.9 %	46.4 %	46.9 %

Gross margin as a percentage of revenue was higher in the December 2021 quarter compared to the September 2021 quarter primarily as a result of improved customer and product mix, manufacturing-related spending reduction, and improved factory absorption and field utilization, partially offset by increased variable compensation.

The decrease in gross margin as a percentage of revenue in the six months ended December 2021 compared to the same period in the prior year was primarily driven by increased manufacturing-related spending, lower field utilization, and increased employee-related expenses.

Research and Development

	Three Months Ended		Six Months Ended	
	December 26, 2021	September 26, 2021	December 26, 2021	December 27, 2020
	(in thousands, except percentages)			
Research & development (“R&D”)	$ 403,644	$ 382,327	$ 785,971	$ 730,539
Percent of revenue	9.6 %	8.9 %	9.2 %	11.0 %

We continued to make significant R&D investments in the December 2021 quarter focused on leading-edge deposition, etch, clean and other semiconductor manufacturing processes. The increase in R&D expense in the December 2021 quarter compared to the September 2021 quarter was primarily driven by a $13 million increase in employee-related expenses primarily as a result of increased headcount and variable compensation.

The increase in R&D expense in the six months ended December 2021 compared to the same period in the prior year was primarily driven by an increase of $61 million in employee-related expenses mainly as a result of increased headcount, slightly offset by a decrease of $13 million in deferred compensation plan-related costs.

Selling, General, and Administrative

	Three Months Ended		Six Months Ended	
	December 26, 2021	September 26, 2021	December 26, 2021	December 27, 2020
	(in thousands, except percentages)			
Selling, general, and administrative (“SG&A”)	$ 236,133	$ 222,194	$ 458,327	$ 408,647
Percent of revenue	5.6 %	5.2 %	5.4 %	6.2 %

SG&A expense during the December 2021 quarter increased in comparison to the September 2021 quarter, driven by a $14 million increase in employee-related expenses primarily as a result of increased headcount and variable compensation.

SG&A expense during the six months ended December 2021 increased compared to the same period in the prior year, primarily driven by increases of $32 million in employee-related expenses due in part to increased headcount and $13 million in spending for outside services.

Other Income (Expense), Net

Other income (expense), net consisted of the following:

	Three Months Ended		Six Months Ended	
	December 26, 2021	September 26, 2021	December 26, 2021	December 27, 2020
	(in thousands)			
Interest income	$ 2,372	$ 4,678	$ 7,050	$ 11,755
Interest expense	(46,765)	(45,056)	(91,821)	(104,666)
(Losses) Gains on deferred compensation plan-related assets, net	(56)	7,437	7,381	37,134
Foreign exchange gains (losses), net	731	(17)	714	(5,138)
Other, net	61,717	4,101	65,818	(7,818)
	$ 17,999	$ (28,857)	$ (10,858)	$ (68,733)

Interest income decreased in the December 2021 quarter compared to the September 2021 quarter primarily as a result of lower interest rates from a change in our investment mix. The decrease in interest income in the six months ended December 2021 compared to the same period in the prior year was as a result of lower cash balances and interest rates.

Interest expense remained relatively flat in the December 2021 quarter compared to the September 2021 quarter as our debt balances remained flat. Interest expense decreased in the six months ended December 2021 compared to the same period in the prior year due to the payoff of the 2021 Senior Notes.

The gains and losses on deferred compensation plan-related assets in the December 2021 and September 2021 quarters were driven by fluctuation in the fair market value of the underlying funds.

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

Other, net generated income for the December 2021 and September 2021 quarters primarily due to gains from our equity investments; the December 2021 quarter included an individually significant gain on one such equity investment. Refer to Note 5, “Other Income, (Expense), net,” of our Condensed Consolidated Financial Statements, included in Part 1 of this Form 10-Q for additional information.

Income Tax Expense

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

	Three Months Ended		Six Months Ended	
	December 26, 2021	September 26, 2021	December 26, 2021	December 27, 2020
	(in thousands, except percentages)			
Income tax expense	$ 161,308	$ 163,632	$ 324,940	$ 209,375
Effective tax rate	11.9 %	12.2 %	12.0 %	11.0 %

The effective tax rate for the December 2021 quarter compared to the September 2021 quarter remained consistent.

The increase in the effective tax rate for the six months ended December 2021 compared to the same period in the prior year was primarily due to the change in level and proportion of income in higher and lower tax jurisdictions.
We transferred our international sales operations from Switzerland to Malaysia, effective from fiscal year 2022. Through fiscal year 2036, we expect to operate under various tax incentives in Malaysia which provide exemptions on foreign income earned and are contingent upon meeting certain conditions.

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. International pre-tax income is taxable in the United States at a lower effective tax rate than the federal statutory tax rate. Please refer to Note 7, “Income Taxes,” to our Consolidated Financial Statements in Part II, Item 8 of our 2021 Form 10-K for additional information.

We re-evaluate 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

Refer to our “Critical Accounting Policies and Estimates” included in Part II, Item 7 of our 2021 Form 10-K for a discussion of our critical accounting policies and estimates.

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 Form 10-Q.

LIQUIDITY AND CAPITAL RESOURCES

Total gross cash, cash equivalents, investments, and restricted cash and investments balances were $5.6 billion at December 26, 2021 compared to $6.0 billion as of June 27, 2021. This decrease was primarily driven by $1.7 billion of share repurchases, including net share settlement on employee stock-based compensation, $396.6 million in dividends paid, and $274.9 million of capital expenditures, partially offset by $1.9 billion of cash generated from operating activities.

Cash Flow from Operating Activities

Net cash provided by operating activities of $1.9 billion during the six months ended December 26, 2021, consisted of (in thousands):

Net income	$	2,374,574
Non-cash charges:		
Depreciation and amortization		161,579
Equity-based compensation expense		120,933
Deferred income taxes		(26,573)
Changes in operating asset and liability accounts		(657,279)
Other		(75,204)
	$	1,898,030

Significant changes in operating asset and liability accounts, net of foreign exchange impact, included the following uses of cash: increases in inventory of $440.3 million, accounts receivable of $377.5 million, and prepaid expense and other assets of $24.9 million, along with a decrease in accrued expenses and other liabilities of $76.9 million. The uses of cash are offset by the following sources of cash: increases in deferred profit of $166.6 million and trade accounts payable of $95.8 million.

Cash Flow from Investing Activities

Net cash provided by investing activities during the six months ended December 26, 2021, was $782.8 million, primarily consisting of net proceeds from sales of available-for-sale securities of $1.1 billion, partially offset by capital expenditures of $274.9 million.

Cash Flow from Financing Activities

Net cash used for financing activities during the six months ended December 26, 2021, was $2.0 billion, primarily consisting of $1.7 billion in treasury stock repurchases, including net share settlement on employee stock-based compensation, $396.6 million in dividends paid, and $8.0 million of cash paid for debt repayment, partially offset by $50.6 million combined proceeds from issuance of common stock and reissuance of treasury stock.

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 December 26, 2021, 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 twelve 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.

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, the ongoing COVID-19 pandemic has in the past caused disruption in the capital markets and were it to do the same in the future, that could make any financing more challenging, and there can be no assurance that we will be able to obtain such financing on commercially reasonable terms or at all.

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 2021 Form 10-K. Other than as noted below, our exposure related to market risk has not changed materially since June 27, 2021. All of the potential changes noted below are based on sensitivity analysis performed on our financial position as of December 26, 2021. 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.

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 with a minimum interest rate of zero BPS. The hypothetical fair values as of December 26, 2021, were as follows:

	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value as of December 26, 2021	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)			
Corporate notes and bonds	$ 302,750	$ 302,682	$ 302,345	$ 301,677	$ 300,944	$ 300,212	$ 299,479
Mortgage backed securities - commercial	4,341	4,330	4,313	4,293	4,574	4,255	4,236
Total	$ 307,091	$ 307,012	$ 306,658	$ 305,970	$ 305,518	$ 304,467	$ 303,715

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.

Equity Price Risk

The values of our investments in publicly traded securities, including mutual funds related to our obligations under our deferred compensation plans, are subject to market price risk. The following table presents the hypothetical fair values of our publicly traded securities that would result from potential decreases and increases in the price of each security in the portfolio. Potential fluctuations in the price of each security in the portfolio of plus or minus 10%, 15%, or 25% were selected based on potential near-term changes in those security prices. The hypothetical fair values as of December 26, 2021, were as follows:

	Valuation of Securities Given an X Decrease in Stock Price			Fair Value as of December 26, 2021	Valuation of Securities Given an X Increase in Stock Price		
	(25)%	(15)%	(10)%	0.00%	10%	15%	25%
				(in thousands)			
Corporate equities	$ 37,225	$ 42,188	$ 44,670	$ 49,633	$ 54,596	$ 57,078	$ 62,041
Mutual funds	81,476	$ 92,339	$ 97,771	108,634	$ 119,497	$ 124,929	$ 135,793
Total	$ 118,701	$ 134,527	$ 142,441	$ 158,267	$ 174,093	$ 182,007	$ 197,834

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 December 26, 2021, 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

There has been no change 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.

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

Please refer to the subsection entitled "Legal Proceedings" within Note 14 "Commitments and Contingencies," to our Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q.

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. Many of the following risk factors have been, and could be further, exacerbated by the COVID-19 pandemic and any worsening of the global business and economic environment as a result. 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 by, nor should be attached to, the order in which the risk factors appear.

INDUSTRY AND CUSTOMER RISKS

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. For example, the COVID-19 outbreak has impacted and could further impact our ability to meet the demand for our products due to production, sourcing, logistics and other challenges resulting from quarantines, shelter in place or "stay at home" orders, facility closures, workforce challenges, and travel and logistics restrictions in connection with the outbreak.

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 and resources 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.

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 economic, political or business 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.

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 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 Face a Challenging and Complex Competitive Environment

We face significant competition from multiple competitors, and with increased consolidation efforts in our industry, as well as the emergence and strengthening of new, regional competitors, 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. Technological changes and developing technologies, have required, and are expected to continue to require, new and costly investments. 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.

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 for a product line application if that customer initially selects a competitor's equipment for the same product line application.

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 addition, the emergence of "big data" and new tools such as machine learning and artificial intelligence that capitalize on the availability of large data sets is leading semiconductor manufacturers and equipment manufacturers to pursue new products and approaches that exploit those tools to advance 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 in the event that we invest in 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, intellectual property and data; 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 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.

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 or data.

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.

BUSINESS AND OPERATIONAL RISKS

The COVID-19 Outbreak Has Adversely Impacted, and May Continue to Adversely Impact, Our Business, Operations, and Financial Results

The COVID-19 outbreak and efforts by national, state and local governments worldwide to control its spread have resulted in widespread measures aimed at containing the disease such as quarantines, travel bans, shutdowns, and shelter in place or "stay at home" orders, which collectively have significantly restricted the movement of people and goods and the ability of businesses to operate. These restrictions and measures, incidents of confirmed or suspected infections within our workforce or those of our suppliers or other business partners, and our efforts to act in the best interests of our employees, customers, and suppliers, have affected and are affecting our business and operations by, among other things, causing facility closures, production delays and capacity limitations; disrupting production by our supply chain; disrupting the transport of goods from our supply chain to us and from us to our customers; requiring modifications to our business processes; requiring the implementation of business continuity plans; requiring the development and qualification of alternative sources of supply; requiring the implementation of social distancing measures that require changes to existing manufacturing processes; disrupting business travel; disrupting our ability to staff our on-site manufacturing and research and development facilities; delaying capital expansion projects; and necessitating teleworking by a large proportion of our workforce. These impacts have caused and are expected to continue to cause delays in product shipments and product development, increases in costs, and decreases in revenue, profitability and cash from operations, which have caused and are expected to cause an adverse effect on our results of operations that may be material. The potential duration and impact of the outbreak on the global economy and on our business are difficult to predict and cannot be estimated with any degree of certainty, but the outbreak has resulted in significant disruption of global financial markets, increases in levels of unemployment, and economic uncertainty, which has adversely impacted our business and may continue to do so, and may lead to significant negative impacts on customer spending, demand for our products, the ability of our customers to pay, our financial condition and the financial condition of our suppliers, and our access to external sources of financing to fund our operations and capital expenditures.

Our Revenues and Operating Results Are Variable

Our revenues and operating results may fluctuate significantly from quarter to quarter or year to year 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 or year. 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;
- changes in our deferred revenue balance, including as a result of factors such as volume purchase agreements, multi-year service contracts, back orders, and down payments toward purchases;
- 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, customer payments, 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;
- transportation, communication, demand, information technology, or supply disruptions based on factors outside our control, such as strikes, acts of God, wars, terrorist activities, widespread outbreak of illness, natural or man-made disasters, or climate change;
- legal, tax, accounting, or regulatory changes (including but not limited to changes in import/export regulations and tariffs) or changes in the interpretation or enforcement of existing requirements;
- changes in our estimated effective tax rate; and
- foreign currency exchange rate fluctuations.

For example, the COVID-19 outbreak has impacted and could further impact our ability to meet the demand for our products due to production, sourcing, logistics and other challenges resulting from quarantines, shelter in place or "stay at home" orders, facility closures, workforce challenges, and travel and logistics restrictions in connection with the outbreak.

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 product development, 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.

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. For example, the COVID–19 outbreak has impacted and could further impact our manufacturing operations, supply chain, and customer support due to production, sourcing, logistics and other challenges resulting from quarantines, "stay at home" orders, facility closures, workforce challenges, and travel and logistics restrictions in connection with the outbreak.

Our Business Relies on Technology, Data, Intellectual Property and Other Sensitive Information That is Susceptible to Cybersecurity and Other Threats or Incidents

Our business is dependent upon the use and protection of technology, data, intellectual property and other sensitive information, which may be owned by, or licensed to, us or third parties, such as our customers and vendors. We maintain and rely upon certain critical information systems for the creation, transmission, use and storage of much of this information, and 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, customers 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.

The technology, data, intellectual property and other sensitive information we seek to protect are subject to loss, release, misappropriation or misuse, and the information systems containing or transmitting such technology, data, intellectual property and other sensitive information are subject to disruption, breach or failure, in each case as a result of various possible causes. Such causes 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 data due to viruses, malware, denial of service attacks, destructive or inadequate code, power failures, or physical damage to computers, hard drives, communication lines, or networking equipment. Such causes may also include the use of 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.

We have experienced cybersecurity and other 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 cybersecurity and other threats or incidents in the future. If we were subject to a cybersecurity or other 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 or other confidential information of our employees, customers or other parties;
- the public release of customer financial and business plans, customer orders and operational results;
- exposure to claims from our employees or third parties who are adversely impacted by such incidents;
- misappropriation or theft of our or a customer's, supplier's or other party's assets or resources, including technology data, intellectual property or other sensitive information and costs associated therewith;
- reputational damage;
- diminution in the value of our 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 and to the technology, data, intellectual property and other sensitive information we seek to protect, those security procedures and mitigation and protection systems cannot be guaranteed to be fail-safe, and we may still suffer cybersecurity and other incidents. It has been difficult and may continue to be difficult to hire and retain employees with substantial cybersecurity acumen. In addition, there have been and may continue to be instances of our policies and procedures not being effective in enabling us to identify risks, threats and incidents in a timely manner, or at all, or to respond expediently, appropriately and effectively when incidents occur and repair any damage caused by such incidents, and such occurrences could have a material adverse effect on our business.

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

Non-U.S. sales, as reflected in Part I Item 2. Results of Operations of this quarterly report on Form 10-Q, accounted for approximately 94%, 94%, and 92% of total revenue in the six months ended December 26, 2021 and fiscal years 2021, and 2020, 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:

- domestic and international trade regulations, policies, practices, relations, disputes and issues;
- domestic and international tariffs, export controls and other barriers;
- developing customers and/or suppliers, who 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;
- changes in and 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, anti-boycott, 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.

For example, the COVID–19 outbreak has impacted and could further impact our manufacturing operations, supply chain, and customer support due to production, sourcing, logistics and other challenges resulting from quarantines, "stay at home" orders, facility closures, workforce challenges, and travel and logistics restrictions in connection with the outbreak.

There is inherent risk, based on the complex relationships among China, Japan, Korea, Taiwan, and the United States, that political, diplomatic and national security influences might lead to trade disputes, impacts and/or disruptions, in particular those affecting the semiconductor industry. This would adversely affect our business with China, Japan, Korea, and/or Taiwan and perhaps the entire Asia Pacific region or global economy. A significant trade dispute, impact and/or disruption in any area where we do business could have a materially adverse impact on our future revenue and profits.

Tariffs, export controls, additional taxes, trade barriers, sanctions, or the termination or modification of trade agreements, trade zones, and other duty mitigation initiatives, 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. Certain of our international sales depend on our ability to obtain export licenses from the U.S. or foreign governments, and our inability to obtain such licenses, or an expansion of the number or kinds of sales for which export licenses are required, could potentially limit the market for our products and adversely impact our revenues. As is discussed below under the heading "Our Sales to Customers in China, a Region of Growing Significance to Us, Could be Materially and Adversely Affected by Export License Requirements and Other Regulatory Changes, or Other Governmental Actions in the Course of the Trade Relationship Between the U.S. and China," the U.S. government has recently expanded export license requirements that impact trade with China. In addition, the U.S. government is in the process of assessing which "emerging and foundational" technologies may be subject to new or additional export controls under the 2018 Export Control Reform Act, and it is possible that such controls, if and when imposed, could adversely impact our ability to sell our products outside the U.S. Furthermore, 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; utilize their influence over their judicial systems to respond to intellectual property disputes or issues; 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.

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, Korean won, Malaysian ringgit, and Indian rupee. Currently, we hedge certain anticipated foreign currency cash flows, primarily anticipated revenues denominated in Japanese yen and expenses dominated in euro, Korean won, Malaysian ringgit, and Indian rupee. 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.

We Face Risks Related to the Disruption of Our Primary Manufacturing and R&D Facilities

While we maintain business continuity plans, our manufacturing and R&D 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, widespread outbreaks of illness, terrorist activities, political or governmental unrest or instability, disruptions of our information technology resources, utility interruptions, the effects of climate change, or other events beyond our control. Such disruptions may cause delays in developing or shipping our products, in engaging with customers on new product applications, or in supporting customers, which could result in the loss of business or customer trust, adversely affecting our business and operating results. For example, the COVID-19 outbreak has impacted and could further impact our manufacturing operations, supply chain, R&D and customer support due to production, sourcing, logistics and other challenges resulting from quarantines, "stay at home" orders, facility closures, workforce challenges, and travel and logistics restrictions in connection with the outbreak.

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 the tens of millions 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;
- increased pressure from regional competitors;
- 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, including new products that take advantage of "big data" or other new technologies such as machine learning and artificial intelligence. 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.

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, trade secrets and other forms of protection. Protecting our key proprietary technology helps us 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 confidential and/or 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 our or third parties' intentional or unintentional actions or omissions or even those 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 might not enforce patents and other intellectual property rights as rigorously or effectively as the United States or may favor local entities in their intellectual property enforcement. 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 selectively file for patent protection in different jurisdictions, we may not have adequate protection in all jurisdictions based on such filing decisions. Any of these circumstances could have a material adverse impact on our business**.**

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, and these factors in combination may result in 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.

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, enhance our technological capabilities, or accomplish other strategic objectives. 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.

LEGAL, REGULATORY AND TAX RISKS

Our Sales to Customers in China, a Region of Growing Significance to Us, Could be Materially and Adversely Affected by Export License Requirements and Other Regulatory Changes, or Other Governmental Actions in the Course of the Trade Relationship Between the U.S. and China

China represents a large and fast-developing market for the semiconductor equipment industry and therefore is important to our business. Revenue in China, which includes global customers and domestic Chinese customers with manufacturing facilities in China, represented approximately 31%, 35%, and 31% of our total revenue for the six months ended December 26, 2021 and fiscal years 2021 and 2020, respectively. The U.S. and China have historically had a complex relationship that has included actions that have impacted trade between the two countries. Recently, these actions have included an expansion of export license requirements imposed by the U.S. government, which have limited the market for our products, adversely impacted our revenues, and increased our exposure to foreign competition, and could potentially do so to an even greater extent in the future. For example, over the course of calendar year 2020, the U.S. Department of Commerce enacted a new rule that expanded export license requirements for U.S. companies to sell certain items to companies and other end-users in China that are designated as military end-users or have operations that could support military end uses, added additional Chinese companies to its restricted entity list (including Semiconductor Manufacturing International Corporation, or SMIC, and related entities), and expanded an existing rule (referred to as the foreign direct product rule) in a manner that could cause foreign-made wafers, chipsets, and certain related items produced with many of our products to be subject to U.S. licensing requirements if Huawei Technologies Co. Ltd ("Huawei") or its affiliates are parties to a transaction involving the items. These rules have required and may require us to apply for and obtain additional export licenses to supply certain of our products to specified customers in China, such as SMIC (where those products would not otherwise require an export license to China), and there is no assurance that we will be issued licenses that we apply for on a timely basis or at all. In addition, our customers (including but not limited to Chinese customers) may require U.S. export licenses for the use of our products in order to manufacture products, including semiconductor wafers and integrated circuits, for those of their customers (i.e. Huawei and its affiliates) that are subject to the expanded foreign direct product rule, which may adversely impact the demand for our products. The U.S. Department of Commerce could in the future add additional Chinese companies to its restricted entity list or take other actions that could expand licensing requirements or otherwise impact the market for our products and our revenue. The implementation, interpretation and impact on our business of these rules and other regulatory actions taken by the U.S. government is uncertain and evolving, and these rules, other regulatory actions or changes, and other actions taken by the governments of either the U.S. or China, or both, that have occurred and may occur in the future could materially and adversely affect our results of operations.

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 or executive bodies and/or regulatory agencies in the countries that we operate; (2) disagreements or disputes 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 export controls, 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, anti-boycott compliance, conflict minerals or other social responsibility legislation, immigration or travel regulations, antitrust regulations, and laws or regulations relating to carbon emissions, as well as other laws or regulations imposed in response to climate change concerns, 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 do not fully comply.

To maintain high standards of corporate governance and public disclosure, we intend to invest appropriate resources to comply with 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, reduced operating income, 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.

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, misappropriation, 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 or misappropriate 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 and 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.

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

We are subject to income, transaction, and other taxes in the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. The amount of taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability. As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. 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 assets, in tax laws, by material audit assessments, or by 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.

Recommendations made by the Organization for Economic Co-operation and Development's Base Erosion and Profit Shifting project have the potential to lead to changes in the tax laws in numerous countries. In addition, President Joseph Biden has made several corporate income tax proposals, including a significant increase to the U.S. corporate income tax rate and changes in the taxation of non-U.S. income. If enacted, such changes could have a material impact on our effective tax rate.

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 undertake remediation activities, 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.

Our Bylaws Designate the Court of Chancery of the State of Delaware as the Sole and Exclusive Judicial Forum for Certain Legal Actions Between the Company and its Stockholders, Which May Discourage Lawsuits with Respect to Such Claims

Our bylaws provide that, unless we consent otherwise, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for lawsuits asserting certain stockholder claims (including claims asserted derivatively for our benefit), such as claims against directors and officers for breach of a fiduciary duty, claims arising under any provision of the General Corporation Law of Delaware or our certificate of incorporation or our bylaws, or claims governed by the internal affairs doctrine. This is a general summary of the bylaw provision; you should refer to the language of the bylaws for details. While the forum provision does not generally apply to direct claims arising under the Securities Exchange Act of 1934 or the Securities Act of 1933, derivative lawsuits that assert legal claims arising under these statutes could fall within the provision, as recent court decisions have held.

As a Delaware corporation, Delaware law controls issues of our internal affairs, including duties that our directors, officers, employees, and others owe to the Company and its stockholders. We believe that our exclusive forum provision benefits us, and our stockholders, by permitting relatively prompt resolution of lawsuits concerning our internal affairs, promoting consistent application of Delaware law in these lawsuits, and reducing the possibility of duplicative, costly, multi-jurisdictional litigation with the potential for inconsistent outcomes. However, the forum provision limits a stockholder’s ability to bring a claim in a judicial forum that it believes may be more favorable than Delaware, and this could discourage the filing of such lawsuits.

FINANCIAL, ACCOUNTING AND CAPITAL MARKETS RISKS

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;
- margin trading, short sales, hedging and derivative transactions involving our Common Stock;
- 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; or
- disruptions of relationships with key customers or suppliers.

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 adversely affected 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.

We May Incur Impairments to Goodwill or Long-lived Assets

We review our goodwill identified in business combinations for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of these assets may exceed the fair value. We review all other long-lived assets, including finite-lived intangible assets, whenever events or changes in circumstance indicate that these assets may not be recoverable. The process of evaluating the potential impairment of goodwill and other long-lived assets requires significant judgement. 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.

When evaluating goodwill, if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative impairment test is performed and we may be required to record an impairment charge in that period, which could adversely affect our result of operations.

When evaluating other long-lived assets, if we conclude that the estimated undiscounted cash flows attributable to the assets are less than their carrying value, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values, which could adversely affect our results 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, 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 May Adversely Affect Our Financial Condition, Results of Operations, and Earnings per Share

We have $5.0 billion in aggregate principal amount of senior unsecured notes outstanding. Additionally, we have funding available to us under our $1.5 billion commercial paper program and our $1.5 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 $600.0 million, for a potential total commitment of $2.1 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 the alternative reference rate reform (e.g. LIBOR transition);
- 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
- impairment of 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.

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.

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 or the repurchasing of shares 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 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 November 2020, the Board of Directors authorized management to repurchase up to an additional $5.0 billion of Common Stock; this authorization supplements the remaining balance from any prior authorization. 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. 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)			
Available balance as of June 27, 2021				$ 4,222,220
Quarter ended September 26, 2021	1,737	$ 608.89	1,725	3,012,479
September 27, 2021 - October 24, 2021	3	$ 565.64	—	3,012,476
October 25, 2021 - November 21, 2021	356	$ 594.95	353	2,802,483
November 22, 2021 - December 26, 2021	326	$ 678.34	324	2,582,493
Quarter ended December 26, 2021	685	$ 634.51	677	$ 2,582,493

(1) During the three and six months ended December 26, 2021, we acquired 8 thousand shares at a total cost of $4.8 million and 20 thousand shares at a total cost of $11.9 million, respectively, 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 the effect of accelerated share repurchase activities. See additional disclosure below regarding our accelerated share repurchase activity during the six months ended December 26, 2021.

Accelerated Share Repurchase Agreements

On August 31, 2021, we entered into an accelerated share repurchase agreement (the “August 2021 ASR") with two financial institutions to repurchase a total of $650 million of Common Stock. We took an initial delivery of approximately 806 thousand shares, which represented 75% of the prepayment amount divided by the Company’s closing stock price on August 31, 2021. The total number of shares received under the August 2021 ASR was 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 2021 ASR occurred in January 2022, subsequent to our December 26, 2021 fiscal quarter end, resulting in the receipt of approximately 265 thousand additional shares, which yielded a weighted-average share price of $606.71 for the transaction period.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit Number	Description
10.1*	Non-employee Director Compensation Program
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	Inline 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	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Indicates management contract or compensatory plan or arrangement.

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: February 1, 2022	LAM RESEARCH CORPORATION (Registrant)
	/s/ Douglas R. Bettinger
	Douglas R. Bettinger **Executive Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)**