

EFFECTIVE PROFITABLE SOFTWARE, INC.  
Form SB-2  
October 04, 2006

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**SECURITIES AND EXCHANGE COMMISSION**

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**FORM SB-2**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**  
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**EFFECTIVE PROFITABLE SOFTWARE, INC.**  
(Exact Name of Small Business Issuer in its Charter)

**DELAWARE**  
(State of Incorporation)

(Primary Standard  
Classification Code)

**98-0412432**  
(IRS Employer ID No.)

**1 Inwood Circle, Suite 209**  
**Little Rock, Arkansas 72211**  
**(501) 223-3310**

Address and Telephone Number of Registrant's Principal  
Executive Offices and Principal Place of Business)

**Gary Moore**  
**1 Inwood Circle, Suite 209**  
**Little Rock, Arkansas 72211**  
**(501) 223-3310**

(Name, Address and Telephone Number of Agent for Service)

Copies of communications to:  
**GREGG E. JACLIN, ESQ.**  
**ANSLOW & JACLIN, LLP**  
**195 Route 9 South, Suite 204**  
**Manalapan, NJ 07726**  
**TELEPHONE NO.: (732) 409-1212**  
**FACSIMILE NO.: (732) 577-1188**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective. If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.  X

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration Statement number of the earlier effective registration statement for the same offering.  |

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

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**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class Of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Aggregate Offering Price per share</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration fee</b>
Common Stock, par value \$0.0001	1,450,000	\$0.10	\$145,000	\$15.03

The offering price has been estimated solely for the purpose of computing the amount of the registration fee in accordance with Rule 457(c). Our common stock is not traded on any national exchange and in accordance with Rule 457, the offering price was determined by the price shareholders were sold to our shareholders in a private placement memorandum. The price of \$0.10 is a fixed price at which the selling security holders will sell their shares until our common stock is quoted on the OTC Bulletin Board at which time the shares may be sold at prevailing market prices or privately negotiated prices. There can be no assurance that a market maker will agree to file the necessary documents with the National Association of Securities Dealers, which operates the OTC Electronic Bulletin Board, nor can there be any assurance that such an application for quotation will be approved.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION DATED OCTOBER , 2006

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the securities act of 1933 or until the registration statement shall become effective on such date as the commission, acting pursuant to said section 8(a), may determine.

**EFFECTIVE PROFITABLE SOFTWARE, INC.  
1,450,000 SHARES OF  
COMMON STOCK**

The selling shareholders named in this prospectus are offering all of the shares of common stock offered through this prospectus. Our common stock is presently not traded on any market or securities exchange. The 1,450,000 shares of our common stock will be sold by selling security holders at a fixed price of \$.10 per share until our shares are quoted on the OTC Bulletin Board and thereafter at prevailing market prices or privately negotiated prices. There can be no assurance that a market maker will agree to file the necessary documents with the National Association of Securities Dealers, which operates the OTC Electronic Bulletin Board, nor can there be any assurance that such an application for quotation will be approved. We have agreed to bear the expenses relating to the registration of the shares for the selling security holders.

**THE COMPANY IS CONSIDERED TO BE IN UNSOUND FINANCIAL CONDITION. PERSONS SHOULD NOT INVEST UNLESS THEY CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENTS.**

**THE PURCHASE OF THE SECURITIES OFFERED THROUGH THIS PROSPECTUS INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FACTORS DESCRIBED UNDER THE HEADING "RISK FACTORS" BEGINNING ON PAGE 2.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

**The Date Of This Prospectus Is: October , 2006**

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## **ABOUT OUR COMPANY**

We were incorporated in the State of Delaware under the name Modena 2, Inc. on December 3, 2003 to engage in any lawful corporate undertaking, including, but not limited to, selected mergers and acquisitions. On September 8, 2004, pursuant to an agreement between us, Chris Penner, Don Bratcher and Gary Moore (“Agreement”), Gary Moore and Don Bratcher purchased all of our issued and outstanding shares of common stock. We had been in the developmental stage since inception and have no operations to date other than issuing shares.

On May 10, 2005, pursuant to a Stock Purchase Agreement and Share Exchange between us and EPS, Inc., an Arkansas corporation, and the shareholders of EPS, we purchased all of the outstanding shares of EPS for the issuance of 10,156,000 shares of our stock to the EPS shareholders. Pursuant to the Agreement, EPS became a wholly owned subsidiary of the Company. Pursuant to the terms of the Agreement, we filed Articles of Amendment with the State of Delaware changing our name to Effective Profitable Software, Inc.

Based on the acquisition of EPS we changed our business focus to become a financial markets evaluation software company which focuses on bringing affordable evaluation tools to the general public. We are based in Little Rock, Arkansas and are led by Don Bratcher, Gary Moore and Richard Torti. We use in house proprietary software for evaluation of markets, stocks, commodities, and other financial instruments. We have developed an evaluation system we call the “Timing Wave.” At the center of the system is a 100% mechanical, unemotional timing model that we believe is both powerful and simple to use.

On May 20, 2005, our directors and shareholders approved a 5-1 forward split of our outstanding common shares increasing the amount of shares owned by these shareholders to 50,780,000 shares.

### **Terms of the Offering**

The selling shareholders named in this prospectus are offering all of the shares of common stock offered through this prospectus. The selling stockholders are selling shares of common stock covered by this prospectus for their own account.

We will not receive any of the proceeds from the resale of these shares. The offering price of \$.10 was determined by the price shares were sold to our shareholders in a private placement memorandum and is a fixed price at which the selling security holders may sell their shares until our common stock is quoted on the OTC Bulletin Board, at which time the shares may be sold at prevailing market prices or privately negotiated prices. There can be no assurance that a market maker will agree to file the necessary documents with the National Association of Securities Dealers, which operates the OTC Electronic Bulletin Board, nor can there be any assurance that such an application for quotation will be approved. We have agreed to bear the expenses relating to the registration of the shares for the selling security holders.

### **Summary Financial Data**

The following summary financial data should be read in conjunction with “Management’s Discussion and Analysis,” “Plan of Operation” and the Financial Statements and Notes thereto, included elsewhere in this prospectus. The statement of operations data and balance sheet data for the six months ended June 30, 2006 and June 30, 2005 are from our unaudited financial statements. The statement of operations data and balance sheet data for the year ended December 31, 2005 and the period from February 23, 2004 to December 31, 2004 are from our audited financial

statements.

	For the Six Months Ended June 30, 2006		For the Year Ended December 31, 2005	For the period February 23, 2004 to December 31, 2004	From Inception (February 23, 2004) to June 30, 2006
	2006 (unaudited)	2005 (unaudited)			
<b>STATEMENT OF OPERATIONS</b>					
Revenues	-	-	-	-	-
Total Operating Expenses	26,360	28,404	42,475	109,466	178,301
Total Other Income (expenses)	(854)	(1,131)	(9,009)	(615)	(10,478)
Net Loss	(27,214)	(29,535)	(51,484)	(110,081)	(188,779)

	For the Period Ended June 30, 2006 (unaudited)	For the Year Ended December 31, 2005
<b>BALANCE SHEET DATA</b>		
Cash	1,630	2,335
Total Assets	6,823	8,540
Total Liabilities	33,691	42,772
Stockholders' Equity (Deficiency)	(26,868)	(34,232)

### Where You Can Find Us

Our executive offices are located at 1 Innwood Circle, Suite 209 Little Rock, Arkansas 72211. Our phone number is (501) 223-3310.

### **RISK FACTORS**

An investment in our common stock involves a high degree of risk. You should carefully consider the material risks described below and the other information in this prospectus before investing in our common stock. Below we have disclosed all material risks related to our company and our stock. If any of the following risks occur, our business, operating results and financial condition could be seriously harmed. Please note that throughout this prospectus, the words “we”, “our” or “us” refer to the Company and not to the selling stockholders.

**WE HAVE A LIMITED OPERATING HISTORY THAT YOU CAN USE TO EVALUATE US, AND THE LIKELIHOOD OF OUR SUCCESS MUST BE CONSIDERED IN LIGHT OF THE PROBLEMS, EXPENSES, DIFFICULTIES, COMPLICATIONS AND DELAYS FREQUENTLY ENCOUNTERED BY A SMALL DEVELOPING COMPANY.**

We were incorporated in Delaware in November 2003. We have no significant assets, financial resources and limited revenues to date. The likelihood of our success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered by a small developing company starting a new business enterprise and the highly competitive environment in which we will operate. Since we have a limited operating history, we cannot assure you that our business will be profitable or that we will ever generate sufficient revenues to meet our expenses and support our anticipated activities.

**WE MAY REQUIRE ADDITIONAL FUNDS TO ACHIEVE OUR CURRENT BUSINESS STRATEGY AND OUR INABILITY TO OBTAIN ADDITIONAL FINANCING WILL INHIBIT OUR ABILITY TO EXPAND OR EVEN MAINTAIN OUR BUSINESS OPERATIONS.**

We may need to raise additional funds through public or private debt or sale of equity to achieve our current business strategy. The financing we need may not be available when needed. Even if this financing is available, it may be on terms that we deem unacceptable or are materially adverse to your interests with respect to dilution of book value, dividend preferences, liquidation preferences, or other terms. Our inability to obtain financing will inhibit our ability to implement our development strategy, and as a result, could require us to diminish or suspend our development strategy and possibly cease our operations.

If we are unable to obtain financing on reasonable terms, we could be forced to delay, scale back or eliminate certain product and service development programs. In addition, such inability to obtain financing on reasonable terms could have a negative effect on our business, operating results, or financial condition to such extent that we are forced to restructure, file for bankruptcy, sell assets or cease operations, any of which could put your investment dollars at significant risk.



**GARY MOORE, DON BRATCHER AND DICK TORTI'S CONTROL MAY PREVENT YOU FROM CAUSING A CHANGE IN THE COURSE OF OUR COMPANY AND MAY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.**

Gary Moore, Don Bratcher and Dick Torti beneficially own approximately 88% of our common stock. Accordingly, for as long as these individuals continue to collectively own more than 50% of our common stock, they will be able to elect our entire board of directors, control all matters that require a stockholder vote (such as mergers, acquisitions and other business combinations) and exercise a significant amount of influence over our management and operations. Therefore, regardless of the number of our common shares sold, your ability to cause a change in the course of our operations is eliminated. As such, the value attributable to the right to vote is limited. This concentration of ownership could result in a reduction in value to the common shares you own because of the ineffective voting power, and could have the effect of preventing us from undergoing a change of control in the future.

**DON BRATCHER AND DICK TORTI, TWO OF OUR OFFICERS, HAVE A CONFLICT OF INTEREST IN THEY ARE INVOLVED IN OTHER BUSINESS INTERESTS WHICH WILL PREVENT THEM FROM DEVOTING THEIR FULL-TIME TO OUR OPERATIONS WHICH MAY AFFECT OUR OPERATIONS.**

Don Bratcher has a conflict of interest in that he independently operates as an insurance examiner and financial analyst for various state insurance departments and Dick Torti has a conflict of interest in that he is an employee of the Arkansas Dept. of Insurance. It is possible that there may be a conflict of interest in providing management services to these companies.

**IF WE ARE UNABLE TO GENERATE SIGNIFICANT REVENUES FROM OUR OPERATIONS, WE MAY BE UNABLE TO EXPAND OUR SERVICES AND MAY BE FORCED TO CEASE OPERATIONS.**

If we are unable to generate significant revenues from our operations, we could be forced to delay, scale back or eliminate certain services and product development programs. We intend to Market our TimingWave software to investors through trading platforms. Ultimately the expansion of business may allow us to become profitable. However, if we fail to generate significant revenues in the future, then we will not be able to expand our services as we anticipate. This failure to expand may hurt our ability to raise additional capital which could have a negative effect on our business, operating results, or financial condition to such extent that we are forced to restructure, file for bankruptcy, sell assets or cease operations, any of which could put your investment dollars at significant risk.

**WE DO NOT CURRENTLY HAVE AGREEMENTS WITH ANY CUSTOMERS TO OFFER OUR PRODUCT TO THEIR CLIENTS. IF WE ARE UNABLE TO OFFER OUR SERVICE THROUGH EXISTING COMPANIES, WE WILL BE UNABLE TO GENERATE REVENUE.**

We currently have an arrangement with one company, Rosenthal & Collins, a Chicago based futures company, to test our software. There is no guarantee that they will find our software acceptable. We do not have any similar arrangements with any other company. At this time, our ability to generate revenue is speculative due to the fact that we do not have any agreements in place to offer our services to the public.

**WE ARE IN AN INTENSELY COMPETITIVE INDUSTRY AND ANY FAILURE TO TIMELY IMPLEMENT OUR BUSINESS PLAN COULD DIMINISH OR SUSPEND OUR DEVELOPMENT AND POSSIBLY CEASE OUR OPERATIONS.**



The intellectual property industry is highly competitive, and has few barriers to entry. We can provide no assurance that additional competitors will not enter into the industry. There are other companies that currently offer similar services that have established user bases that are significantly larger than ours, and that have access to greater capital. If we are unable to efficiently and effectively institute our business plan as a result of intense competition or a saturated market, we may not be able to continue the development and enhancement of our web site and become profitable.

**WE DO NOT EXPECT TO PAY DIVIDENDS AND INVESTORS SHOULD NOT BUY OUR COMMON STOCK EXPECTING TO RECEIVE DIVIDENDS.**

We have not paid any dividends on our common stock in the past, and do not anticipate that we will declare or pay any dividends in the foreseeable future. Consequently, you will only realize an economic gain on your investment in our common stock if the price appreciates. You should not purchase our common stock expecting to receive cash dividends. Since we do not pay dividends, and if we are not successful in having our shares listed or quoted on any exchange or quotation system, then you may not have any manner to liquidate or receive any payment on your investment. Therefore our failure to pay dividends may cause you to not see any return on your investment even if we are successful in our business operations. In addition, because we do not pay dividends we may have trouble raising additional funds which could affect our ability to expand our business operations.

**IF WE ARE UNABLE TO HIRE AND RETAIN KEY PERSONNEL, THEN WE MAY NOT BE ABLE TO IMPLEMENT OUR BUSINESS PLAN.**

We depend on the services of our officer and directors and our success depends on the continued efforts of such individual to manage our business operations. At the present time, Gary Moore, our President and Chief Executive Officer devotes approximately 25 hours per week to the business affairs of the Company. Don Bratcher, our Chief Financial Officer, devotes five to ten hours per week to the business affairs of the Company. The loss of the services of the President could have a negative effect on our business, financial condition and results of operations. In addition, our success in expanding our business operations is largely dependent on our ability to hire highly qualified personnel. In addition, we may lose employees or consultants that we hire due to higher salaries and fees being offered by competitors or other businesses in the industry.

**THE OFFERING PRICE OF THE SHARES WAS ARBITRARILY DETERMINED, AND THEREFORE SHOULD NOT BE USED AS AN INDICATOR OF THE FUTURE MARKET PRICE OF THE SECURITIES. THEREFORE, THE OFFERING PRICE BEARS NO RELATIONSHIP TO THE ACTUAL VALUE OF THE COMPANY, AND MAY MAKE OUR SHARES DIFFICULT TO SELL.**

Since our shares are not listed or quoted on any exchange or quotation system, the offering price of \$.01 for the shares of common stock was arbitrarily determined. The facts considered in determining the offering price were our financial condition and prospects, our limited operating history and the general condition of the securities market. The offering price bears no relationship to the book value, assets or earnings of our company or any other recognized criteria of value. The offering price should not be regarded as an indicator of the future market price of the securities.

**OUR AUDITOR HAS EXPRESSED SUBSTANTIAL DOUBT AS TO OUR ABILITY TO CONTINUE AS A GOING CONCERN**

Based on our financial history since inception, our auditor has expressed substantial doubt as to our ability to continue as a going concern. We are a development stage company that has not generated any revenue to date. We have incurred net losses of \$188,779, and an accumulated deficit of \$188,779. If we cannot generate sufficient revenues from our services, we may not be able to implement our business plan and may be forced to cease our business

activities.

**THERE IS NO ASSURANCE OF A PUBLIC MARKET OR THAT THE COMMON STOCK WILL EVER TRADE ON A RECOGNIZED EXCHANGE. THEREFORE, YOU MAY BE UNABLE TO LIQUIDATE YOUR INVESTMENT IN OUR STOCK.**

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There is no established public trading market for our common stock. Our shares are not and have not been listed or quoted on any exchange or quotation system. There can be no assurance that a market maker will agree to file the necessary documents with the National Association of Securities Dealers, which operates the OTC Electronic Bulletin Board, nor can there be any assurance that such an application for quotation will be approved or that a regular trading market will develop or that if developed, will be sustained. In the absence of a trading market, an investor may be unable to liquidate their investment.

**OUR COMMON STOCK IS CONSIDERED A PENNY STOCK, WHICH IS SUBJECT TO RESTRICTIONS ON MARKETABILITY, SO YOU MAY NOT BE ABLE TO SELL YOUR SHARES.**

If our common stock becomes tradable in the secondary market, we will be subject to the penny stock rules adopted by the Securities and Exchange Commission that require brokers to provide extensive disclosure to their customers prior to executing trades in penny stocks. These disclosure requirements may cause a reduction in the trading activity of our common stock, which in all likelihood would make it difficult for our shareholders to sell their securities.

**FUTURE SALES BY OUR STOCKHOLDERS MAY NEGATIVELY AFFECT OUR STOCK PRICE AND OUR ABILITY TO RAISE FUNDS IN NEW STOCK OFFERINGS.**

Sales of our common stock in the public market following this offering could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all. Of the 53,480,000 shares of common stock outstanding as of October 3, 2006, 1,450,000 shares are, or will be, freely tradable without restriction upon the effective date of this registration statement, unless held by our “affiliates”. The remaining 52,030,000 shares of common stock, which will be held by existing stockholders, including the officers and directors, are “restricted securities” and may be resold in the public market only if registered or pursuant to an exemption from registration. Some of these shares may be resold under Rule 144.

**“PENNY STOCK” RULES MAY MAKE BUYING OR SELLING OUR COMMON STOCK DIFFICULT**

Trading in our securities is subject to the “penny stock” rules. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors, must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser’s written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit the market price and liquidity of our securities. Broker-dealers who sell penny stocks to certain types of investors are required to comply with the Commission’s regulations concerning the transfer of penny stocks. These regulations require broker-dealers to:

Make a suitability determination prior to selling a penny stock to the purchaser;

Receive the purchaser’s written consent to the transaction; and

Provide certain written disclosures to the purchaser.

These requirements may restrict the ability of broker-dealers to sell our common stock and may affect your ability to resell our common stock.

**USE OF PROCEEDS**

The selling stockholders are selling shares of common stock covered by this prospectus for their own account. We will not receive any of the proceeds from the resale of these shares. We have agreed to bear the expenses relating to the registration of the shares for the selling security holders.

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### **DETERMINATION OF OFFERING PRICE**

Since our shares are not listed or quoted on any exchange or quotation system, the offering price of the shares of common stock was arbitrarily determined. The offering price was determined by the price shares were sold to our shareholders in a private placement memorandum undertaken by our subsidiary EPS, Inc. pursuant to Regulation D Rule 506 of the Securities Act of 1933 which was completed in December 2004.

The offering price of the shares of our common stock has been determined arbitrarily by us and does not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value. The facts considered in determining the offering price were our financial condition and prospects, our limited operating history and the general condition of the securities market. Although our common stock is not listed on a public exchange, we will be filing to obtain a listing on the Over The Counter Bulletin Board (OTCBB) concurrently with the filing of this prospectus. In order to be quoted on the Bulletin Board, a market maker must file an application on our behalf in order to make a market for our common stock. There can be no assurance that a market maker will agree to file the necessary documents with the National Association of Securities Dealers, which operates the OTC Electronic Bulletin Board, nor can there be any assurance that such an application for quotation will be approved. In addition, there is no assurance that our common stock will trade at market prices in excess of the initial public offering price as prices for the common stock in any public market which may develop will be determined in the marketplace and may be influenced by many factors, including the depth and liquidity of the market for the common stock, investor perception of us and general economic and market conditions.

### **DILUTION**

The common stock to be sold by the selling shareholders is common stock that is currently issued. Accordingly, there will be no dilution to our existing shareholders.

### **PENNY STOCK CONSIDERATIONS**

Our common stock will be penny stock; therefore, trading in our securities is subject to penny stock considerations. Broker-dealer practices in connection with transactions in “penny stocks” are regulated by certain penny stock rules adopted by the Securities and Exchange Commission.

Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. The broker-dealer must also make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These requirements may have the effect of reducing the level of trading activity, if any, in the secondary market for a security that becomes subject to the penny stock rules. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit their market price and liquidity of our securities. These requirements may restrict the ability of broker-dealers to sell our common stock and may affect your ability to resell our common stock.

### **SELLING SHAREHOLDERS**

The shares being offered for resale by the selling stockholders consist of the 1,450,000 shares of our common stock held by 37 shareholders. Such shareholders include the holders of the shares sold in the Regulation D Rule 506

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offering which was completed by EPS, Inc. in April 2005 and the shares which were subsequently issued to these shareholders pursuant to the terms of the Stock Purchase Agreement and Share Exchange between us and EPS, Inc. Such shareholders also include individuals who received such shares for services rendered to EPS, Inc. and subsequently received shares of our common stock in the Share Exchange. Such shareholders also include Anslow & Jaclin, LLP who received compensation for legal services.

The following table sets forth the name of the selling stockholders, the number of shares of common stock beneficially owned by each of the selling stockholders as of October 3, 2006 and the number of shares of common stock being offered by the selling stockholders. The shares being offered hereby are being registered to permit public secondary trading, and the selling stockholders may offer all or part of the shares for resale from time to time. However, the selling stockholders are under no obligation to sell all or any portion of such shares nor are the selling stockholders obligated to sell any shares immediately upon effectiveness of this prospectus. All information with respect to share ownership has been furnished by the selling stockholders.

<b>Name of selling stockholder</b>	<b>Shares of Stock owned prior to offering</b>	<b>Shares of Common stock to be sold</b>	<b>Shares of common stock owned after Offering</b>	<b>Percent of common owned after offering (1)</b>
Anslow, Richard I.	250,000	100,000	150,000	*
Baste, Randy	5,000	5,000	0	*
Blackwood, Jr., Robert A.	5,000	5,000	0	*
Bratcher, Don	15,250,000	100,000	15,150,000	28.33%
Braziel, John R.	5,000	5,000	0	*
Carden, Jimmy (4)	1,250,000	100,000	1,150,000	2.15%
Compton, John M.	5,000	5,000	0	*
DeWese, Randy O.	5,000	5,000	0	*
DeWese, Richard	5,000	5,000	0	*
Eubanks III, Robert M.	5,000	5,000	0	*
France, Mindy	5,000	5,000	0	*
Good III, Henry	300,000	100,000	200,000	*
Good, David M.	5,000	5,000	0	*
Good, Dr. Henry	10,000	10,000	0	*
Halinski, Jr., Richard T.	5,000	5,000	0	*
Islom, Amanda	5,000	5,000	0	*
Jaclin, Gregg E.	250,000	100,000	150,000	*
Joyce, Jr., William D.	1,005,000	100,000	905,000	1.69%
Kemp, William R.	5,000	5,000	0	*
Kennedy, Brad	5,000	5,000	0	*
Leathers, Joan	250,000	100,000	150,000	*
Moore, Eunice	1,250,000	100,000	1,150,000	2.15%
Moore, Gary	15,250,000	100,000	15,150,000	28.33%
Moore, Randy	5,000	5,000	0	*
Nesslerodt, D.A.	5,000	5,000	0	*
Reddy, R. N.	10,000	10,000	0	*
Rife, Dan	5,000	5,000	0	*
Sands, Charlotte	275,000	100,000	175,000	*
Sands, Spencer	25,000	25,000	0	*
Sluess, Belinda	500,000	100,000	400,000	*
Snyder, Dale H.	5,000	5,000	0	*
Thommann, Ralph	5,000	5,000	0	*



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Torti, Dick	15,000,000	100,000	14,900,000	27.86%
Torti, Richy	1,250,000	100,000	1,150,000	2.15%
Umar, Emre	5,000	5,000	0	*
Watts, Judy	5,000	5,000	0	*
Webb, James V.	5,000	5,000	0	*

\* Less than one (1) percent

(1) Based on 53,480,000 shares issued and outstanding as of October 3, 2006.

To our knowledge, except as noted below, none of the selling shareholders or their beneficial owners:

- has had a material relationship with us other than as a shareholder at any time within the past three years; or
- has ever been one of our officers or directors or an officer or director of our predecessors or affiliates
- are broker-dealers or affiliated with broker-dealers.

The following sets forth the relationships between the selling shareholders and our principal shareholders and officers and directors:

1. Eunice  
Moore is the mother of Gary Moore
2. Amanda  
Islom is the niece of Gary Moore
3. Spencer  
Sands is the nephew of Gary Moore
4. Randy  
Moore is the cousin of Gary Moore
5. Jimmy  
Carden is the uncle of Gary Moore
6. Charlotte  
Sands is the sister of Gary Moore
7. Richie Torti  
is the son of Dick Torti
8. Richard  
Dewese is the stepson of Dick Torti
9. Randy  
Dewese is the stepson of Dick Torti

John Compton, Dan Rife, Robbie Blackwood, and Randy Baste are affiliated with broker-dealers but purchased their shares in us outside of their affiliation with the broker-dealers. They purchased their shares in the ordinary course of business and at the time of the purchase of the securities to be resold, they had no agreements or understandings,

directly or indirectly, with any person to distribute the securities.

To our knowledge, none of our shareholders other than John Compton, Dan Rife, Robbie Blackwood, and Randy Baste are broker-dealers or affiliated with broker-dealers

### **PLAN OF DISTRIBUTION**

The selling security holders may sell some or all of their shares at a fixed price of \$.10 per share until our shares are quoted on the OTC Bulletin Board and thereafter at prevailing market prices or privately negotiated prices. Prior to being quoted on the OTCBB, shareholders may sell their shares in private transactions to other individuals. Although our common stock is not listed on a public exchange, we will be filing to obtain a listing on the Over The Counter Bulletin Board (OTCBB) concurrently with the filing of this prospectus. In order to be quoted on the Bulletin Board, a market maker must file an application on our behalf in order to make a market for our common stock. There can be no assurance that a market maker will agree to file the necessary documents with the National Association of Securities Dealers, which operates the OTC Electronic Bulletin Board, nor can there be any assurance that such an application for quotation will be approved. There can be no assurance that a market maker will agree to file the necessary documents with the National Association of Securities Dealers, which operates the OTC Electronic Bulletin Board, nor can there be any assurance that such an application for quotation will be approved. However, sales by selling security holder must be made at the fixed price of \$.10 until a market develops for the stock.

Once a market has been developed for our common stock, the shares may be sold or distributed from time to time by the selling stockholders directly to one or more purchasers or through brokers or dealers who act solely as agents, at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at negotiated prices or at fixed prices, which may be changed. The distribution of the shares may be effected in one or more of the following methods:

- o ordinary brokers transactions, which may include long or short sales,
- o transactions involving cross or block trades on any securities or market where our common stock is trading,  
market where our common stock is trading,
- o through direct sales to purchasers or sales effected through agents,
- o any combination of the foregoing.

In addition, the selling stockholders may enter into hedging transactions with broker-dealers who may engage in short sales, if short sales were permitted, of shares in the course of hedging the positions they assume with the selling stockholders. The selling stockholders may also enter into option or other transactions with broker-dealers that require the delivery by such broker-dealers of the shares, which shares may be resold thereafter pursuant to this prospectus.

Brokers, dealers, or agents participating in the distribution of the shares may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and/or the purchasers of shares for whom such broker-dealers may act as agent or to whom they may sell as principal, or both(which compensation as to a particular broker-dealer may be in excess of customary commissions). Neither the selling stockholders nor we can presently estimate the amount of such compensation. We know of no existing arrangements between the selling stockholders and any other stockholder, broker, dealer or agent relating to the sale or distribution of the shares. We will not receive any proceeds from the sale of the shares of the selling security holders pursuant to this prospectus. We have agreed to bear the expenses of the registration of the shares, including legal and accounting fees, and such expenses are estimated to be approximately \$25,000.

Notwithstanding anything set forth herein, no NASD member will charge commissions that exceed 8% of the total proceeds of the offering.

**LEGAL PROCEEDINGS**

The issuer is not a party to any current or contemplated litigation. No director, nominee for director, or executive officer has appeared as a party in any legal proceeding material to an evaluation of his ability or integrity during the past five years.

**DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS**

Our directors and officers, as of October 3, 2006, are set forth below. The directors hold office for their respective term and until their successors are duly elected and qualified. Vacancies in the existing Board are filled by a majority vote of the remaining directors. The officers serve at the will of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date Appointed</u>
Gary Moore	52	President; Chief Executive Officer; Director	September 8, 2004
Don Bratcher	54	Vice President; Chief Financial Officer; Director	September 8, 2004
Dick Torti	52	Vice President	October 15, 2004

**Business Experience**

Set forth below is the name of our director and officer, all positions and offices with us held, the period during which he has served as such, and the business experience during at least the last five years:

**GARY MOORE** has been our President and Chief Executive Officer, as well as a member of the Board of Directors since September 8, 2004. He brings to the Company more than 25 years experience in the banking industry. Since its inception, Mr. Moore has been responsible for the development and infrastructure of EPS, our wholly owned subsidiary, which is a market evaluation software company. From 2001- 2003 he was a partner and a co-founder of AMDS in Memphis Tennessee which is a merchant service provider for credit card processing. He sold his interest in AMDS to his partners in June 2003. Prior to such time from 1986-1999 he was the head government bond trader for Union Planter Bank where he managed bond positions and traded over a billion bonds monthly. In 2000-2001, he was also employed in the mortgage division of Union Planters where his responsibilities included correspondent banking and developing relationships with regional banks. He received his degree in Journalism/Public Relations from the University of Memphis in 1976.

**DON BRATCHER** has been our Chief Financial Officer as well as a member of our Board of Directors since September 8, 2004. He has over 25 years experience in finance and has served in various capacities at both small and large companies. He is presently self-employed as a Futures and Options Trader. In addition, since 1993 he acted as Examiner In-Charge and Examiner on behalf of various state insurance departments for financial condition examinations of insurance companies participating in all phases of the examination process. In such capacities he performed in-house desk audits and financial analysis of both domestic and foreign insurers. Prior to such time he was the Senior Insurance Examiner for the Arkansas Insurance Department, Little Rock, Arkansas. He was responsible for the supervision and participation in the examination of domestic and foreign insurance companies to determine financial condition and compliance with Arkansas insurance law. Mr. Bratcher is a Certified Financial Examiner and Member of the Arkansas Society of Certified Public Accountants.

**DICK TORTI** has been our Vice President since October 15, 2004. He has over 25 years experience in the banking and securities industries and has served in various capacities in profit and loss management, operations, compliance strategic planning and business development. He is currently employed by the Arkansas Dept. of Insurance, and prior to that position he was self-employed as a contract consultant and in such capacity in banking, investments and

business management. In addition, from 1999 until 2001 he was the Vice President/Manager of Capital Markets for Union Bank of California in Los Angeles. In such capacity he management capital markets department with full profit and loss responsibility with an emphasis on strengthening the bank's overall market share with its customer base by building referral channels for cross selling opportunities with other department. From 1994 to 1999 he was the Senior Vice President and Midwest Manager of Bank of America/Nations Bank where he directed bank relationships managers in developing customer programs. Mr. Torti has a Series 65 license and has active life and health insurances licenses. He received his Master of Business in Finance as well as his Bachelor of Business Administration in Investments and Accounting from Memphis State University in Memphis, Tennessee.

### **Term of Office**

Our directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board.

All officers and directors listed above will remain in office until the next annual meeting of our stockholders, and until their successors have been duly elected and qualified. There are no agreements with respect to the election of Directors. We have not compensated our Directors for service on our Board of Directors, any committee thereof, or reimbursed for expenses incurred for attendance at meetings of our Board of Directors and/or any committee of our Board of Directors. Officers are appointed annually by our Board of Directors and each Executive Officer serves at the discretion of our Board of Directors. We do not have any standing committees. Our Board of Directors may in the future determine to pay Directors' fees and reimburse Directors for expenses related to their activities.

None of our Officers and/or Directors have filed any bankruptcy petition, been convicted of or been the subject of any criminal proceedings or the subject of any order, judgment or decree involving the violation of any state or federal securities laws within the past five (5) years.

### **Audit Committee**

We do not have a standing audit committee of the Board of Directors. Management has determined not to establish an audit committee at present because of our limited resources and limited operating activities do not warrant the formation of an audit committee or the expense of doing so. We do not have a financial expert serving on the Board of Directors or employed as an officer based on management's belief that the cost of obtaining the services of a person who meets the criteria for a financial expert under Item 401(e) of Regulation S-B is beyond its limited financial resources and the financial skills of such an expert are simply not required or necessary for us to maintain effective internal controls and procedures for financial reporting in light of the limited scope and simplicity of accounting issues raised in its financial statements at this stage of its development.

## **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth the number and percentage of shares of our common stock owned as of October 3, 2006 by all persons (i) known to us who own more than 5% of the outstanding number of such shares, (ii) by all of our directors, and (iii) by all officers and directors of us as a group. Unless otherwise indicated, each of the stockholders has sole voting and investment power with respect to the shares beneficially owned.

<b><u>Title of Class</u></b>	<b><u>Name and Address of Beneficial Owner</u></b>	<b><u>Amount and Nature of Beneficial Owner</u></b>	<b><u>Percent of Class(1)</u></b>
Common Stock	Gary Moore 1 Inwood Cr. Little Rock, AR 72211	17,250,000 (2)	32.26%
Common Stock	Don Bratcher 23 Hampshire Circle Little Rock, AR 72212	15,250,000	28.52%
Common Stock	Dick Torti 68 River Ridge Rd Little Rock, AR 72227	15,000,000	28.05%
Officers and Directors As a Group (3)		47,000,000	88.83%

(1) The percent of class is based on 53,480,000 shares of common stock issued and outstanding as of October 3, 2006.

(2) Of these 17,250,000 shares, 15,250,000 shares are owned directly by Mr. Moore. The remaining 1,430,000 shares are owned by members of Mr. Moore's immediate family.

## **DESCRIPTION OF SECURITIES**

### **General**

Our original articles of incorporation authorized 100,000,000 shares of common stock at a par value of \$0.0001 per share. There are no provisions in our charter or by-laws that would delay, defer or prevent a change in our control.

### **Common Stock**

As of October 3, 2006, 53,480,000 shares of common stock are issued and outstanding and held by 38 shareholders. Holders of our common stock are entitled to one vote for each share on all matters submitted to a stockholder vote.

Holders of common stock do not have cumulative voting rights.

Therefore, holders of a majority of the shares of common stock voting for the election of directors cannot necessarily elect all of the directors. Holders of our common stock representing a majority of the voting power of our capital stock issued and outstanding and entitled to vote, represented in person or by proxy, are necessary to constitute a quorum at any meeting of our stockholders. A vote by the holders of a majority of our outstanding shares is required to effectuate certain fundamental corporate changes such as liquidation, merger or an amendment to our Articles of Incorporation.

Although there are no provisions in our charter or by-laws that may delay, defer or prevent a change in control, we are authorized, without shareholder approval, to issue shares of preferred stock that may contain rights or restrictions that could have this effect.

Holders of common stock are entitled to share in all dividends that the board of directors, in its discretion, declares from legally available funds. In the event of liquidation, dissolution or winding up, each outstanding share entitles its holder to participate pro rata in all assets that remain after payment of liabilities and after providing for each class of

stock, if any, having preference over the common stock. Holders of our common stock have no pre-emptive rights, no conversion rights and there are no redemption provisions applicable to our common stock.

**Preferred Stock**

Our articles of incorporation currently do not authorize us to issue preferred stock.

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### **Dividends**

Since inception we have not paid any dividends on our common stock. We currently do not anticipate paying any cash dividends in the foreseeable future on our common stock, when issued pursuant to this offering. Although we intend to retain our earnings, if any, to finance the exploration and growth of our business, our Board of Directors will have the discretion to declare and pay dividends in the future. Payment of dividends in the future will depend upon our earnings, capital requirements, and other factors, which our Board of Directors may deem relevant.

### **Warrants**

There are no outstanding warrants to purchase our securities.

### **Options**

There are no options to purchase our securities outstanding. We may in the future establish an incentive stock option plan for our directors, employees and consultants.

## **INTERESTS OF NAMED EXPERTS AND COUNSEL**

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the common stock was employed on a contingency basis, or had, or is to receive, in connection with the offering, a substantial interest, direct or indirect, in the registrant or any of its parents or subsidiaries. Nor was any such person connected with the registrant or any of its parents or subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

The financial statements included in this prospectus and the registration statement have been audited by Webb & Company, P.A., to the extent and for the periods set forth in their report appearing elsewhere herein and in the registration statement, and are included in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

## **DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES**

Our directors and officers are indemnified as provided by the Delaware Statutes and our Bylaws. We have agreed to indemnify each of our directors and certain officers against certain liabilities, including liabilities under the Securities Act of 1933. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the provisions described above, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by our director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.



We have been advised that in the opinion of the Securities and Exchange Commission indemnification for liabilities arising under the Securities Act is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities is asserted by one of our directors, officers, or controlling persons in connection with the securities being registered, we will, unless in the opinion of our legal counsel the matter has been settled by controlling precedent, submit the question of whether such indemnification is against public policy to a court of appropriate jurisdiction. We will then be governed by the court's decision.

## **DESCRIPTION OF BUSINESS**

### Organization Within the Last Three Years

We were incorporated in the State of Delaware under the name Modena 2, Inc. on December 3, 2003 to engage in any lawful corporate undertaking, including, but not limited to, selected mergers and acquisitions. On September 8, 2004, pursuant to an agreement between us, Chris Penner, Don Bratcher and Gary Moore ("Agreement"), Gary Moore and Don Bratcher purchased all of our issued and outstanding shares of common stock. We have been in the developmental stage since inception and have no operations to date other than issuing shares

On May 10, 2005, pursuant to a Stock Purchase Agreement and Share Exchange between us and EPS, Inc., an Arkansas corporation, and the shareholders of EPS, we purchased all of the outstanding shares of EPS for the issuance of 10,056,000 shares of our stock to the EPS shareholders. Pursuant to the Agreement, EPS became a wholly owned subsidiary of the Company. Pursuant to the terms of the Agreement, we filed Articles of Amendment with the State of Delaware changing our name to Effective Profitable Software, Inc.

Based on the acquisition of EPS we changed our business focus to become a financial markets evaluation software company which focuses on bringing affordable evaluation tools to the general public. We are based in Little Rock, Arkansas and are led by Don Bratcher, Gary Moore and Richard Torti. We use in house proprietary software for evaluation of markets, stocks, commodities, and other financial instruments. We have developed an innovative evaluation system we call the "Timing Wave." At the center of the system is a 100% mechanical, unemotional timing model that is both powerful and simple to use. The system's web-based access will make it both affordable and accessible and our evaluations will be easily understood.

On May 20, 2005, our directors and shareholders approved a 5-1 forward split of our outstanding common shares increasing the amount of shares owned by these shareholders to 50,280,000 shares.

### Executive Summary

EPS, Inc. is financial markets evaluation software company that will focus on bringing affordable evaluation tools to the general public. Our business model is to use in house proprietary software for evaluation of markets, stocks, commodities, and other financial instruments.

We have developed an innovative evaluation system we call "TimingWave". At the center of the system is a 100% mechanical, unemotional timing model that is both powerful and simple to use. Its web-based access will make it both affordable and accessible, and its evaluations are easily understood. Timingwave is offered for use through the Internet by investors when deciding short term price momentum for various securities. EPS does not offer investment advice, nor does it guarantee the accuracy of the software's calculated opinion: such decisions are left to the investors. The software offers a reference to the potentially oversold/overbought position that the underlying study may exhibit. This proprietary system evaluates the short term momentum of indices or individual products. For example it works with stocks, bonds and commodities. Because the system is mathematical it offers an opinion as to the overbought/oversold position that is automatic and therefore unemotional. The company suggests that anyone using

TimingWave do so only with the advice of their financial advisor and a sound capital management plan including stop-loss arrangements.

We have been testing TimeWave for the past nine months, comparing our hypothetical trades with the results of actual markets. After three additional months of testing, we will have enough data to fully assess the capabilities of TimingWave.

We believe that we will be able to leverage the proprietary evaluation system to quickly gain market share. Priced at less than a dollar a day, it will have user friendly functions that produce reliable and clear evaluations for our subscribers. If and once TimingWave is firmly developed in the market, the Company will consider offering other services. No such services, however, are currently in development.

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### Management Team

Our management team has combined experience in sales, banking, management, accounting, and technical evaluation. All members of our management team share the same desire to bring an affordable evaluation system to the public.

### Services

Training materials will be provided for all software subscribers. If a subscriber chooses to, they can attend instructional seminars where a Power Point presentation will be presented to them along with the use of the training materials. The seminars will be held in various locations throughout the country and admission is free, although reservations will be mandatory in order to allow EPS to prepare for the number of participants. If a subscriber chooses not to attend the seminars, they will be given passwords in order to gain access to an on-line system which will provide them with the training materials.

### Market Analysis Summary

Trading platforms such as TradeStation, eSignal, and MetaStock have a total of approximately 500,000 subscribers. We intend to build our software on their platforms. Subscriptions will be made on-line through our website and access for each platform will be linked. Software engineers are working on TradeStation now and we have built the system on MetaStock, which currently has the least subscribers. We are currently building our system on eSignal. Our target goal is TradeStation which has the largest number of subscribers.

Professional traders, as well as companies operating trade platforms, will be contacted. The software is interfaced with their trading platforms, and the trading fees that are generated by the system will be shared. Hedge funds, money managers, and mutual funds will be solicited for designing proprietary systems suited to their particular requirements. We also address a previously ignored niche: the small investor. By making the evaluation systems affordable, we will provide the small investor an instrument to enhance his or her earnings and protect his or her portfolio.

### Service Business Analysis

The majority of evaluation programs are designed for the professional or institutional trader; they are typically complicated with confusing language. We are different because our programs are written for the novice in mind and we do not use complicated indicators or subjective strategies. All markets do one of three things: go up, go down, or go sideways. Complicated charts with numerous indicators tend to confuse rather than clarify. The purpose of our system is to help the investor decide whether they should be in or out of a given market, stock, or other investment.

We will attempt to leverage the proprietary evaluation system to quickly gain market share. The system is convenient and based on extensive research, providing a reliable model for evaluation of both markets and stocks.

We intend to hold seminars throughout the country to educate the consumer on the product they are buying. Outside agents will arrange and conduct the seminars. The agents will make a scripted Power Point presentation, demonstrating the evaluation software and how to read the indicators. Direct mail and email advertising will be used as well. These forms of advertising offer free access and instructions on the use of the evaluation software's various programs. We also intend to begin a weekly, interactive class for subscribers in case they have any questions they need clarified.

### Web Plan Summary

Management has secured the services of a Web designer to build our Website. It is currently under construction. The site will contain information on the use of Timingwave as well as tutorials to assist in formulating a sound capital management plan. There will also be descriptive information regarding the various markets for investing. The target date for completion is December 31, 2006.

Our website will have several different functions. It will be used as a marketing tool and it will allow subscribers to access the evaluation software. The site will also give subscribers opinions on strategies and historic data along with third party validation of the performance of our evaluation system. Paypal will be used to handle all internet subscriptions on the site. A weekly TimingWave instructional and interactive class will also be provided, along with a glossary and answers to FAQ's.

### Competition

Countless market timing websites are available each having particular systems and markets with various time periods and indicators. We are not similar to that type of market timing service since we are a trading tool which indicates when certain market conditions exist for a high probability trade. The website will contain software in which the subscriber will be able to test results historically and it will give the most advantageous stop loss level. The indicators that collaborate to produce the market signal are simple and not subjective. We do not believe that TimingWave has any real or specific competition but we just do not have any name recognition. In order to rectify this we intend to market the TimingWave with a free one month subscription.

### Customers

Currently, our only customer is Rosenthal & Collins, a Chicago based futures company. Rosenthal & Collins is currently testing our software, and may offer TimingWave to their clients if they find its results acceptable. We do not have an exclusive agreement with Rosenthal & Collins, but rather we are marketing to other similar companies as well. There is no guarantee that we will be able to secure other customers or that Rosenthal & Collins will ultimately offer TimingWave to their clients.

### Research and Development

We have, to date, spent \$8,400 on data feed and technical work in our attempts to build a system tester. The data feed is used to test our product's results when applied to actual securities markets.

### Employees

We currently have two employees in our company.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our financial condition. The discussion should be read in conjunction with our financial statements and notes thereto appearing in this prospectus. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward- looking statements.

### Overview

On May 10, 2005, pursuant to a Stock Purchase Agreement and Share Exchange between us and EPS, Inc., an Arkansas corporation, and the shareholders of EPS, we purchased all of the outstanding shares of EPS for the issuance

of 10,156,000 shares of our stock to the EPS shareholders. Pursuant to the Agreement, EPS became a wholly owned subsidiary of the Company. Pursuant to the terms of the Agreement, we filed Articles of Amendment with the State of Delaware changing our name to Effective Profitable Software, Inc.

Based on the acquisition of EPS we changed our business focus to become an evaluation software company which focuses on bringing affordable evaluation tools to the general public. We are based in Little Rock, Arkansas and are led by Don Bratcher, Gary Moore and Richard Torti. We use in house proprietary software for evaluation of markets, stocks, commodities, and other financial instruments. We have developed an innovative financial markets evaluation system we call the TimingWave. At the center of the system is a 100% mechanical, unemotional timing model that is both powerful and simple to use. The system's web-based access will make it both affordable and accessible and our evaluations are easily understood.

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On May 20, 2005, our directors and shareholders approved a 5-1 forward split of our outstanding common shares increasing the amount of shares owned by these shareholders to 50,280,000 shares.

### **Plan of Operations**

During the next twelve months, we expect to take the following steps in connection with the operations:

Initially we plan to prepare and execute a marketing plan to develop our subscription base. The majority of our member base will be obtained from two sources: search engine results and links placed in online market timing directories via link exchange programs. We anticipate that within thirty to sixty days, a comprehensive marketing plan will be developed. We expect to spend approximately \$5,000 on marketing in the areas of Keyword Advertising and Sponsored Links through Google, FindWhat, and other similar targeted keyword programs. Another area that we will vigorously pursue as part of our marketing and branding program is search engine placement. By continuing to work to optimize the site, and by increasing the number of links to the site, we feel we can receive better search results and search engine saturation, which in turn directs more traffic to the website. In addition to our internet based effort we intend to advertise in national papers Wall Street Journal, USA Today we anticipate additional subscriptions from word of mouth.

In the first quarter of 2007, we intend to charge a subscription fee for our services. We believe our programs are so unique and accurate that no active subscription members will be affected and we intend to inform them when they subscribe that this is an initial offer and prices will increase. We currently have enough cash to satisfy our minimum cash requirements for the next 6 months to maintain our operations. However, we may require additional funds to increase marketing, to expand international and for further development of our Website.

We do not have enough cash to satisfy our minimum cash requirements for the next twelve months. In addition, we will require additional funds to increase marketing, to expand operations, and for further development of our website. No significant purchases of equipment are anticipated; however, a substantial surge in traffic and/ or membership could necessitate the purchase of additional servers.

As reflected in the accompanying financial statements, we are in the development stage with limited operations. This raises substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to raise additional capital and implement our business plan. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

EPS Inc. continues to record real time trades in order to give a history of the software's performance. The industry standard is a minimum of one year's results. We have now 9 months of data. Rosenthal & Collins, our only client, is independently testing the system. We are working on building it's software on the trade station platform which will enable us to offer it to over 500,000 subscriber. We do not have a target date for this completion. However once this is completed we intend to commence a print and internet based marketing program.

### **Capital Resources and Liquidity.**

Our unaudited balance sheet as of June 30, 2006 reflects assets of \$6,823 consisting of cash of \$1,630, prepaid expense of \$250, property and equipment of \$4,193, and deposits of \$750. Total liabilities as of June 30, 2006 were \$33,691 consisting of accounts payable of \$11,587 and stockholder loans of \$22,104.

As of June 30, 2006, we had cash of \$1,630. Our general and administrative expenses are expected to average \$5,000 per month for the next 12 months based upon our projected operating budget. We currently do not have enough cash to satisfy more than one year of operations without receiving additional funds from our President or additional investors.

Our audited balance sheet as of December 31, 2005 reflects assets of \$8,540 consisting of cash of \$2,335, property and equipment of \$4,655, deposits of \$750, and pre-paid expenses of \$800. Total liabilities as of December 31, 2005 were \$42,772 consisting of accounts payable of \$8,187 and stockholder loans of 34,585.

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### **Going Concern Consideration**

The report of our independent registered public accounting firm on our December 31, 2005 audited financial statements contains an explanatory paragraph expressing uncertainty with respect to our ability to continue as a going concern. As reflected in the accompanying audited financial statements, we are in the development stage. We have no operations and have had recurring losses since inception and an accumulated deficit of \$161,565. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to raise additional capital and implement our business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

We believe that actions presently being taken to obtain additional funding and implement our strategic plans provide the opportunity for us to continue as a going concern.

### **Recent Accounting Pronouncements**

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections. This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 also requires that a change in depreciation, amortization or depletion method for long-lived, non financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This Statement is effective in fiscal years beginning after December 15, 2005. The Company has not yet determined the effect of implementing this standard.

### **Critical Accounting Policies**

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States (“GAAP”). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 1 of our financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

### **Off-Balance Sheet Arrangements**



We have no off-balance sheet arrangements.

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## DESCRIPTION OF PROPERTY

Our executive offices are located at 1 Innwood Circle, Suite 209 Little Rock, Arkansas 72211. This office space is leased to us pursuant to a month-to-month lease which commenced October 2005. Pursuant to the terms of the lease we pay \$250 a month for this property and we believe that this space is sufficient and adequate to operate our current business.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our officers have loaned us working capital in the form of unsecured demand notes. At June 30, 2006 we owed \$22,104. There are no terms on the note. We are accruing interest on the notes at a rate of 4% per annum and classifying the expense as an in-kind contribution.

## MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### No Public Market for Common Stock

There is presently no public market for our common stock.

### Holder

As of October 3, 2006, there are approximately 38 holders of our common stock.

### Rule 144

The 50,780,000 (post split) shares issued to our shareholders pursuant to the share exchange agreement with EPS, Inc., are available for resale to the public and in accordance with the volume and trading limitations of Rule 144 of the Act. In general, under Rule 144 as currently in effect, a person who has beneficially owned shares of a company's common stock for at least one year is entitled to sell within any three month period a number of shares that does not exceed 1% of the number of shares of the company's common stock then outstanding which, in our case, would equal approximately 534,800 shares as of the date of this prospectus.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about the company. Under Rule 144(k), a person who is not one of the company's affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

### Dividends

Since inception we have not paid any dividends on our common stock. We currently do not anticipate paying any cash dividends in the foreseeable future on our common stock, when issued pursuant to this offering. Although we intend to retain our earnings, if any, to finance the exploration and growth of our business, our Board of Directors will have the discretion to declare and pay dividends in the future.

Payment of dividends in the future will depend upon our earnings, capital requirements, and other factors, which our Board of Directors may deem relevant.

**Equity Compensation Plan Information**

The following table sets forth certain information as of October 3, 2006, with respect to compensation plans under which our equity securities are authorized for issuance:

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<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of <u>outstanding options, warrants and rights</u></b> <b>(a)</b>	<b>Weighted-average exercise price of <u>outstanding options, warrants and rights</u></b> <b>(b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding <u>securities reflected in column (a)</u>)</b> <b>(c)</b>
Equity compensation Plans approved by Security holders	None		
Equity compensation Plans not approved By security holders	None		

### EXECUTIVE COMPENSATION

**Summary Compensation Table.** The following summary compensation table sets forth all compensation paid by us during the fiscal year ended December 31, 2005 and for the period February 23, 2004 to December 31, 2004 in all capacities for the accounts of the Chief Executive Officer (CEO) and executive officers who were serving as of the fiscal year ending December 31, 2005 whose salary and bonus during fiscal year ending December 31, 2005 exceeded \$100,000.

#### Summary Compensation Table

<b><u>Name</u></b>	<b><u>Year</u></b>	<b><u>ANNUAL COMPENSATION</u></b>		<b><u>LONG-TERM COMPENSATION</u></b>	
		<b><u>Salary</u></b>		<b><u>Restricted</u></b>	<b><u>Stock Awards (\$)</u></b>
Gary Moore	2005	\$0		\$0	
Chief Executive Officer	2004	\$0		\$0	

**Option Grants Table.** There were no individual grants of stock options to purchase our common stock made to the executive officer named in the Summary Compensation Table during fiscal year ended December 31, 2005

**Aggregated Option Exercises and Fiscal Year-End Option Value Table.** There were no stock options exercised during fiscal year ending December 31, 2005, by the executive officer named in the Summary Compensation Table.

**Long-Term Incentive Plan (“LTIP”) Awards Table.** There were no awards made to a named executive officer in the last completed fiscal year under any LTIP

**Compensation of Directors**

Directors are permitted to receive fixed fees and other compensation for their services as directors. The Board of Directors has the authority to fix the compensation of directors. No amounts have been paid to, or accrued to, directors in such capacity.

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### AVAILABLE INFORMATION

We have filed a registration statement on Form SB-2 under the Securities Act of 1933 with the Securities and Exchange Commission with respect to the shares of our common stock offered through this prospectus. This prospectus is filed as part of that registration statement and does not contain all of the information contained in the registration statement and exhibits. We refer you to our registration statement and each exhibit attached to it for a more complete description of matters involving us, and the statements we have made in this prospectus are qualified in their entirety by reference to these additional materials. You may inspect the registration statement and exhibits and schedules filed with the Securities and Exchange Commission at the Commission's principal office in Washington, D.C. Copies of all or any part of the registration statement may be obtained from the Public Reference Section of the Securities and Exchange Commission, 100 F Street NE, Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The Securities and Exchange Commission also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and information regarding registrants that file electronically with the Commission. In addition, we will file electronic versions of our annual and quarterly reports on the Commission's Electronic Data Gathering Analysis and Retrieval, or EDGAR System. Our registration statement and the referenced exhibits can also be found on this site as well as our quarterly and annual reports. We will not send the annual report to our shareholders unless requested by the individual shareholders.

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**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE COMPANY)**

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**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS OF JUNE 30, 2006**  
**(UNAUDITED)) (Restated)**

**ASSETS**

**CURRENT ASSETS**

Cash	\$	1,630
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Prepaid expense		250
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Total Current Assets		1,880
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<b>PROPERTY AND EQUIPMENT, NET</b>		4,193
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**OTHER ASSETS**

Deposits		750
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Total Other Assets		750
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<b>TOTAL ASSETS</b>	<b>\$</b>	<b>6,823</b>
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**LIABILITIES AND STOCKHOLDERS' DEFICIENCY**

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$	11,587
---------------------------------------	----	--------

Stockholder loans		22,104
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<b>TOTAL LIABILITIES</b>		<b>33,691</b>
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**STOCKHOLDERS' DEFICIENCY**

Common stock, \$0.0001 par value, 100,000,000 shares authorized, 53,480,000 shares issued and outstanding		5,350
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Additional paid in capital		156,561
----------------------------	--	---------

Accumulated deficit during development stage		(188,779)
--	--	-----------

Total Stockholders' Deficiency		(26,868)
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<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>	\$	6,823
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See accompanying notes to condensed consolidated financial statements.

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**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	For the Three Months Ended June 30, 2006 (Restated)	For the Three Months Ended June 30, 2005	For the Six Months Ended June 30, 2006 (Restated)	For the Six Months Ended June 30, 2005	For the Period from February 23, 2004 (Inception) to June 30, 2006 (Restated)
<b>REVENUE</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES</b>					
General and administrative	16,675	12,766	26,360	28,404	178,301
Total Operating Expenses	16,675	12,766	26,360	28,404	178,301
<b>LOSS FROM OPERATIONS</b>	(16,675)	(12,766)	(26,360)	(28,404)	(178,301)
<b>OTHER INCOME (EXPENSE)</b>					
Other income	-	-	-	-	31
Loss on disposal of assets	-	-	-	-	(6,893)
Interest expense	(26)	(1,119)	(854)	(1,131)	(3,616)
Total Other (Income) Expense	(26)	(1,119)	(854)	(1,131)	(10,478)
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	(16,701)	(13,885)	(27,214)	(29,535)	(188,779)
Provision for Income Taxes	-	-	-	-	-
<b>NET LOSS</b>	\$ (16,701)	\$ (13,885)	\$ (27,214)	\$ (29,535)	\$ (188,779)
Net Loss Per Share - Basic and Diluted	\$ -	\$ -	\$ -	\$ -	\$ -
	53,440,440	52,165,870	52,846,851	51,454,033	49,451,632

Weighted Average Number of  
Common Shares Outstanding -  
Basic and Diluted

See accompanying notes to condensed consolidated financial statements.

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**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY**  
**FOR THE PERIOD FROM FEBRUARY 23, 2004 (INCEPTION) TO JUNE 30, 2006**  
**(UNAUDITED)**

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-In	Deficit	
			Capital	During	
				Development	
				Stage	
Common stock issued to founders for cash (\$0.00002 per share)	45,000,000	\$ 4,500	\$ (3,600)	\$ -	900
Common stock issued for legal services (\$0.02 per share)	500,000	50	9,950	-	10,000
Common stock issued for services (\$0.02 per share)	2,500,000	250	49,750	-	50,000
Common stock issued for cash (\$0..02 per share)	2,280,000	230	45,370	-	45,600
In-kind contribution of interest on stockholder loans	-	-	646	-	646
Net loss for the period from February 23, 2004 (inception) to December 31, 2004	-	-	-	(110,081)	(110,081)
Balance, December 31, 2004	50,280,000	5,030	102,116	(110,081)	(2,935)
Common stock issued for services (\$0.02 per share)	500,000	50	9,950	-	10,000
Common stock issued for cash (\$0.02 per share)	500,000	50	9,950	-	10,000
In-kind contribution of interest on stockholder loans	-	-	1,787	-	1,787
Common stock issued in reverse merger	500,000	250	(1,650)	-	(1,600)

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Net loss, 2005	-	-	-	(51,484)	(51,484)
Balance, December 31, 2005 (Restated)	51,780,000	5,180	122,153	(161,565)	(34,232)
Stock issued for cash (\$0.02 per share)	1,700,000	170	33,830	-	34,000
In-kind contribution of interest on stockholder loans	-	-	578	-	578
Net loss for the six months ended June 30, 2006	-	-	-	(27,214)	(27,214)
<b>BALANCE, JUNE 30, 2006 (Restated)</b>	<b>53,480,000</b>	<b>\$ 5,350</b>	<b>\$ 156,561</b>	<b>(188,779)</b>	<b>\$ (26,868)</b>

See accompanying notes to condensed consolidated financial statements.

**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005	For the Period from February 23, 2004 (Inception) to June 30, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (27,214)	\$ (29,535)	\$ (188,779)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	462	1,563	4,205
Loss on disposal of property and equipment	-	-	6,893
In-kind contribution of interest on stockholder loans	578	1,056	3,011
Stock issued for payment of services and expenses	-	10,000	70,000
Changes in operating assets and liabilities:			
Deposits	-	-	(750)
Prepaid expenses	550	26,000	(250)
Accounts payable and accrued expenses	3,400	2,574	9,987
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(22,224)</b>	<b>11,658</b>	<b>(95,683)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale of property and equipment	-	-	3,425
Purchase of property and equipment	-	-	(18,716)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>-</b>	<b>-</b>	<b>(15,291)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of loan payable - related party	-	13,633	66,420
Repayment of loan payable - related party	(12,481)	(26,000)	(44,316)

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Proceeds from issuance of common stock	34,000	-	90,500
Net Cash Provided By (Used In) Financing Activities	21,519	(12,367)	112,604
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(705)</b>	<b>(709)</b>	<b>1,630</b>

<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>2,335</b>	<b>1,544</b>	<b>-</b>
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<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 1,630</b>	<b>\$ 835</b>	<b>\$ 1,630</b>
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**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid for interest	\$ 276	\$ 74	\$ 605
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Cash paid for taxes	\$ -	\$ -	\$ -
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See accompanying notes to condensed consolidated financial statements.

**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2006**  
**(UNAUDITED)(Restated)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION**

**(A) Basis of Presentation**

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information necessary for a comprehensive presentation of financial position and results of operations.

It is management's opinion however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

**(B) Organization**

Effective Profitable Software, Inc. F/K/A Modena 2, Inc. (a development stage company) was incorporated in the state of Delaware on November 18, 2003.

EPS, Inc., (a development stage company) was incorporated in the state of Arkansas on February 23, 2004.

On May 10, 2005 pursuant to a stock purchase agreement and share exchange between the Effective Profitable Software, Inc. and EPS, Inc. and the shareholders of EPS, Inc., we purchased all of the outstanding shares of EPS for the issuance of 10,156,000 (50,780,000 post-split) shares of our stock to EPS shareholders. Pursuant to the agreement, EPS became a wholly owned subsidiary of the Company. As a result of the agreement, the transaction was treated for accounting purposes as a reorganization by the accounting acquirer (EPS, Inc.) and as a recapitalization by the accounting acquiree (Effective Profitable Software, Inc.).

Accordingly, the financial statements include the following:

- (1) The balance sheet consists of the net assets of the acquirer at historical cost and the net assets of the acquiree at historical cost.
- (2) The statement of operations includes the operations of the acquirer for the periods presented and the operations of the acquiree from the date of the merger.

Activities during the development stage include developing the business plan and raising capital.





**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2006**  
**(UNAUDITED)(Restated)**

Effective Profitable Software, Inc. and its wholly-owned subsidiary are hereafter referred to as the “Company”.

The Company intends to develop computer software for use in technical analysis of financial markets.

**(C) Principles of Consolidation**

The 2006 financial statements include the accounts of Effective Profitable Software, Inc. and its wholly-owned subsidiary EPS, Inc. The 2005 financial statements include the accounts of Effective Profitable Software, Inc. from the May 10, 2005 merger and its wholly-owned subsidiary EPS, Inc., from February 23, 2004, inception.

All significant intercompany accounts and transactions have been eliminated in consolidation.

**(D) Revenue Recognition**

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is assured.

**(E) Cash and Cash Equivalents**

The Company considers cash on hand and amounts on deposit with financial institutions which have original maturities of three months or less to be cash and cash equivalents.

**(F) Use of Estimates**

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates

**(G) Property and Equipment**

Property and equipment are recorded at cost. Depreciation is computed using the declining balance method over the estimated useful lives of the various classes of assets as follows:

Computers and equipment	5 years
Furniture and fixtures	7 years

Property and equipment at June 30, 2006 consisted of the following:



**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2006**  
**(UNAUDITED)(Restated)**

Office furniture and fixtures	\$ 4,727
Computer equipment	1,247
Total Property	\$ 5,794
Less: Accumulated depreciation	1,781
Property and equipment, net	\$ 4,193

Depreciation expense for the six month periods ended June 30, 2006 and 2005 and for the period from February 23, 2004 (inception) to June 30, 2006 was \$462, \$1,563 and \$4,205, respectively.

**(H) Income Taxes**

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement 109"). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**(I) Fair Value of Financial Instruments**

The Company's financial instruments include accounts payable and liabilities to shareholders. The carrying amounts of other financial instruments approximate their fair value because of short-term maturities.

**(J) Earnings Per Share**

Basic earnings per share is computed by dividing earnings available to stockholders by the weighted-average number of shares outstanding for the period as guided by the Financial Accounting Standards Board (FASB) under Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Shares". Diluted EPS reflects the potential dilution of securities that could share in the earnings. As of June 30, 2006 and 2005, the Company does not have any outstanding dilutive securities.



**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2006**  
**(UNAUDITED)(Restated)**

**(K) Concentrations of Credit Risk**

Financial instruments which potentially expose the Company to concentrations of credit risk consist principally of operating demand deposit accounts if those accounts are in excess of \$100,000. As of June 30, 2006 there were no cash deposits in excess of the FDIC limit.

**(L) Recent Accounting Pronouncements**

SFAS 155, "Accounting for Certain Hybrid Financial Instruments" and SFAS 156, "Accounting for Servicing of Financial Assets" were recently issued. SFAS 155 and 156 have no current applicability to the Company and have no effect on the financial statements.

**NOTE 2 RESTATEMENT OF FINANCIAL STATEMENTS**

The financial statement for the period ended June 30, 2006 has been restated to adjust the number of post split shares issued in the reverse merger with EPS from 2,500,000 to 500,000 shares of common stock for the year ended December 31, 2005. The original number of shares issued to EPS was 100,000 shares of common stock or 500,000 shares post split. All equity numbers have been adjusted as well as the weighted average shares outstanding. The restatement has had no effect on the total shareholders deficit or the loss per share.

**NOTE 3 RELATED PARTY TRANSACTIONS**

The Company's officers have loaned the Company working capital in the form of unsecured demand notes. At June 30, 2006 the Company owed \$22,104. There are no terms on the note and the Company expects to retire these notes during the year 2007. The Company is accruing interest at a rate of 4% per annum and classifying the expense as an in-kind contribution.

**NOTE 4 STOCKHOLDERS' EQUITY**

**(A) Issuance of Common Stock to Founders**

On February 23, 2004, the company issued 45,000,000 shares of common stock to the Company's officers for services regarding the initial start up of the Company. The value of these shares was \$900, or \$.00002 per share.

**(B) Stock Issued for Cash**

During the period ended December 31, 2004, the Company undertook a private placement issuance, Regulation D Rule offering whereby 2,280,000 shares of common stock were issued for cash of \$45,600, or \$0.02 per share.

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During the year ended December 31, 2005, the Company issued 500,000 shares to an investor for cash of \$10,000, or \$0.02 per share.

During the three months ended March 31, 2006, the Company issued 500,000 shares to an investor for cash of \$10,000 or \$0.02 per share.

**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2006**  
**(UNAUDITED)(Restated)**

During April 2006, the Company issued 1,200,000 shares to one investor for cash of \$24,000 (\$0.02 per share).

**(C) Stock Issued in Reverse Merger**

On May 10, 2005, Effective Profitable Software, Inc. exchanged 500,000 shares of common stock for all the outstanding shares of EPS.

**(D) Stock Issued for Services**

On April 1, 2004, the Company issued 500,000 shares of common stock for legal services. The value of these shares was \$10,000 or \$0.02 per share.

During the last quarter of 2004, the Company issued 2,500,000 shares of common stock for services. The value of these shares was \$50,000, or \$0.02 per share.

In January 2005, the Company issued 500,000 shares of common stock for services. The value of these shares was \$10,000, or \$0.02 per share.

**(E) In-Kind Contribution**

During the period ended December 31, 2004, \$646 of in-kind contributions relating to imputed interest on related party loans was recorded.

During the year ended December 31, 2005, \$1,787 of in-kind contributions relating to imputed interest on related party loans was recorded.

During the six months ended June 30, 2006, \$578 of in-kind contribution relating to imputed interest on related party loans was recorded.

**NOTE 5 GOING CONCERN**

As reflected in the accompanying financial statements, the Company is in the development stage with no revenue, a working capital deficiency of \$31,811, a stockholder's deficiency of \$26,868 and has a negative cash flow from operations of \$95,683 from inception. This raises substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.





**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2006**  
**(UNAUDITED)(Restated)**

Management believes that actions presently being taken to obtain additional funding and implement its strategic plans provide the opportunity for the Company to continue as a going concern.

**EFFECTIVE PROFITABLE SOFTWARE, INC.  
(A DEVELOPMENT STAGE COMPANY)**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of:  
Effective Profitable Software, Inc. and Subsidiary  
(A Development Stage Company)

We have audited the accompanying consolidated balance sheet of Effective Profitable Software, Inc. and subsidiary (a development stage company) as of December 31, 2005 and the related statements of operations, changes in stockholders' deficit and cash flows for the year ended December 31, 2005 (Consolidated), the period from February 23, 2004 (inception) to December 31, 2004 and the period from February 23, 2004 (inception) to December 31, 2005 (Consolidated). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Effective Profitable Software, Inc. and subsidiary (a development stage company) as of December 31, 2005 and the results of its operations and its cash flows for the year ended December 31, 2005 (Consolidated), the period from February 23, 2004 (inception) to December 31, 2004 and the period from February 23, 2004 (inception) to December 31, 2005 (Consolidated) in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company is in the development stage with no revenue, a working capital deficiency of \$40,437, a stockholder's deficiency of \$34,232 and has a negative cash flow from operations of \$73,459 from inception. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans concerning this matter are also described in Note 4. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WEBB & COMPANY, P.A.

Boynton Beach, Florida

May 25, 2006 (EXCEPT FOR NOTE 2 FOR WHICH THE DATE IS SEPTEMBER 27, 2006)

**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED BALANCE SHEET (Restated)**  
**AS OF DECEMBER 31, 2005**

**ASSETS**

**CURRENT ASSETS**

Cash	\$	2,335
Total Current Assets		2,335

<b>PROPERTY AND EQUIPMENT, NET</b>		4,655
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**OTHER ASSETS**

Deposits		750
Prepaid expense		800
Total Other Assets		1,550

<b>TOTAL ASSETS</b>	\$	8,540
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**LIABILITIES AND STOCKHOLDERS' DEFICIENCY**

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$	8,187
Stockholder loans		34,585

<b>TOTAL LIABILITIES</b>		42,772
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**STOCKHOLDERS' DEFICIENCY**

Common stock, \$0.0001 par value, 100,000,000 shares authorized, 51,780,000 shares issued and outstanding	5,180
Additional paid in capital	121,153
Accumulated deficit during development stage	(161,565)

Total Stockholders' Deficiency	(34,232)
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	\$	8,540
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**TOTAL LIABILITIES AND STOCKHOLDERS'  
DEFICIENCY**

See accompanying notes to consolidated financial statements.

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**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENTS OF OPERATIONS**

	For the Year Ended December 31, 2005 (Consolidated)(Restated)	For the Period from February 23, 2004 (Inception) to December 31, 2004	For the Period from February 23, 2004 (Inception) to December 31, 2005 (Consolidated)(Restated)
<b>REVENUES</b>	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES</b>			
General and administrative	42,475	109,466	151,941
Total Operating Expenses	42,475	109,466	151,941
<b>LOSS FROM OPERATIONS</b>	(42,475)	(109,466)	(151,941)
<b>OTHER INCOME (EXPENSE)</b>			
Other income	-	31	31
Loss on disposal of assets	(6,893)	-	(6,893)
Interest expense	(2,116)	(646)	(2,762)
Total Other Income (Expense)	(9,009)	(615)	(9,624)
<b>NET LOSS BEFORE PROVISION FOR INCOME TAXES</b>	(51,484)	(110,081)	(161,565)
Provision for Income Taxes	-	-	-
<b>NET LOSS</b>	\$ (51,484)	\$ (110,081)	\$ (161,565)
Net loss per share - basic and diluted	-	-	-
Weighted average number of shares outstanding during the period - basic and diluted	51,197,808	45,603,685	48,620,384

See accompanying notes to consolidated financial statements.



**EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENT OF STOCKHOLDERS' DEFICIENCY**  
**FOR THE PERIOD FROM FEBRUARY 23, 2004 (INCEPTION) TO DECEMBER 31, 2005**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit During Development Stage	Total
	Shares	Amount			
Common stock issued to founders for cash (\$0.001 per share)	45,000,000	\$ 4,500	\$ (3,600)	\$ -	900
Common stock issued for legal services (\$0.10 per share)	500,000	50	9,950	-	10,000
Common stock issued for services (\$0.10 per share)	2,500,000	250	49,750	-	50,000
Common stock issued for cash (\$0.10 per share)	2,280,000	230	45,370	-	45,600
In-kind contribution of interest on stockholder loans	-	-	646	-	646
Net loss for the period from February 23, 2004 (inception) to December 31, 2004	-	-	-	(110,081)	(110,081)
Balance, December 31, 2004	50,280,000	5,030	102,116	(110,081)	(2,935)
Common stock issued for services (\$0.10 per share)	500,000	50	9,950	-	10,000
Common stock issued for cash (\$0.10 per share)	500,000				

Government-sponsored enterprises  
11,022

(204  
)

10,818

—

10,818

—

—

Foreign government bonds  
31,052

—

(8  
)

31,044

—

31,044

—

—

Corporate notes and bonds  
497,206

76

(999  
)

496,283

65,846

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430,437

—

—

Mortgage backed securities — residential  
746

—

(2  
)

744

—

744

—

—

Level 2 Total  
692,363

78

(1,794  
)

690,647

65,846

624,801

—

—

Total  
\$  
3,946,605

\$  
2,469

\$  
(2,088  
)

\$  
3,946,986

\$  
2,568,085

\$  
1,050,863

\$  
255,924

\$  
72,114

15

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

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

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

	September 23, 2018		Unrealized Losses 12 Months or Greater	Total
	Unrealized Losses Less than 12 Months	Unrealized Losses Less than 12 Months		
	Gross Fair Value	Gross Unrealized Loss	Gross Fair Value	Gross Unrealized Loss
	(in thousands)			
U.S. Treasury and agencies	\$ 421,723	\$ (92)	\$ 5,880	\$ (119)
Municipal notes and bonds	141,051	(534)	5,725	(47)
Mutual funds	17,592	(83)	—	17,592
Government-sponsored enterprises	—	—	10,785	(204)
Foreign government bonds	26,928	(8)	—	26,928
Corporate notes and bonds	266,159	(751)	24,286	(248)
Mortgage backed securities — residential	143	(2)	—	743
	\$ 874,196	\$ (1,470)	\$ 46,676	\$ (618)
				\$ 920,872
				\$ (2,088)



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

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

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

***Derivative Instruments and Hedging***

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

***Cash Flow Hedges***

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

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

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

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

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

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

*Fair Value Hedges*

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

*Balance Sheet Hedges*

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

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

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

<sup>(1)</sup> The local currency notional amounts of these foreign currency option contracts are equal to each other.

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

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

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

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

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



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

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

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

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

	<b>Three Months Ended September 23, 2018</b>			
	<b>Revenue</b>	<b>Cost of Goods Sold</b>	<b>Selling, General and Admini-strative</b>	<b>Other Income (Expense)</b>
	(in thousands)			
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded:	\$2,330,691	\$1,272,493	\$ 174,775	\$ (377 )

**The effects of fair value and cash flow hedging:*****Gain or (loss) on fair value hedging relationships in Subtopic 815-20:***

Interest contracts:

Hedged items	—	—	—	2,286
Derivatives designated as hedging instruments	—	—	—	(2,286 )

***Gain or (loss) on cash flow hedging relationships in Subtopic 815-20:***

Foreign exchange contracts:

Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	674	(1,557 )	(527 )	—
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Interest rate contracts:

Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	—	—	—	(33 )
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***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.

Table of Contents**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:

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

**NOTE 10 — GOODWILL AND INTANGIBLE ASSETS***Goodwill*

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

*Intangible Assets*

The following table provides the Company's intangible assets:

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

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

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

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

Table of Contents**NOTE 11 — ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

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

**NOTE 12 — LONG-TERM DEBT AND OTHER BORROWINGS**

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

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

(1) As of the report date, these notes were convertible at the option of the bondholder. This is a result of the following condition being met: the market value of the Company's Common Stock was greater than 130% of the convertible notes conversion price for 20 or more of the 30 consecutive trading days preceding the quarter-end. As a result, the 2041 Notes were classified in current liabilities and a portion of the equity component, associated with the convertible notes representing the unamortized discount, was classified in temporary equity on the Company's Consolidated Balance Sheets. Upon closure of the conversion period, the notes not converted will be reclassified back into noncurrent liabilities and the temporary equity will be reclassified into permanent equity.

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

**Convertible Senior Notes**

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





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

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

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

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

***Convertible Warrants***

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

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

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

***Senior Notes***

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

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

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

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

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

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

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

**Commercial Paper Program**

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

**Revolving Credit Facility**

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

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

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

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Table of Contents***Interest Cost***

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

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

**NOTE 13 — COMMITMENTS AND CONTINGENCIES*****Operating Leases and Related Guarantees***

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

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

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

***Other Guarantees***

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

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

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

any amounts will be required to be paid.

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

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

*Warranties*

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

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

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

*Legal proceedings*

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

**NOTE 14 — STOCK REPURCHASE PROGRAM**

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

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

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

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

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

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

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Table of Contents*Accelerated Share Repurchase Agreements Executed in September Quarter*

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

**NOTE 15 — ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

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

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

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

Table of Contents**ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations  
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

**EXECUTIVE SUMMARY**

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

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products, including mobile phones, personal computers, servers, wearables, automotive devices, storage devices, and networking equipment. Our vision is to realize full value from natural technology extensions of our company. Our customer base includes leading semiconductor memory, foundry, and integrated device manufacturers that make products such as non-volatile memory, DRAM memory, and logic devices. We aim to increase our strategic relevance with our customers by contributing more to their continued success. Our core technical competency is integrating hardware, process, materials, software, and process control enabling results on the wafer.

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

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

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

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

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

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

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

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



Table of Contents**RESULTS OF OPERATIONS****Revenue**

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

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

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

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

**Gross Margin**

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

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

**Research and Development**

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

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

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

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

***Selling, General, and Administrative***

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

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

***Other Expense, Net***

Other expense, net consisted of the following:

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

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

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

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

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

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

***Income Tax Expense***

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





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

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

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

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

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

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

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

**Uncertain Tax Positions**

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

- the recognition and valuation of revenue from arrangements with multiple performance obligations which impacts revenue;
- the valuation of inventory, which impacts gross margin;
- the valuation of warranty reserves, which impacts gross margin;
- the recognition and measurement of current and deferred income taxes, including the measurement of uncertain tax positions, which impact our provision for income tax expenses; and
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the valuation and recoverability of long-lived assets, which impacts gross margin and operating expenses when we record asset impairments or accelerate their depreciation or amortization.

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

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

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

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

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

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

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

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

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As a result, several factors could result in an impairment of a material amount of our goodwill balance in future periods, including but not limited to: (1) weakening of the global economy, weakness in the semiconductor equipment industry, or our failure to reach internal forecasts, which could impact our ability to achieve our forecasted levels of cash flows and reduce the estimated discounted cash flow value of our reporting units; and (2) a decline in our Common Stock price and resulting market capitalization, to the extent we determine that the decline is sustained and indicates a reduction in the fair value of our reporting units below their carrying value. Further, the value assigned to intangible assets, other than goodwill, is based on estimates and judgments regarding expectations such as the success and lifecycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, we may be required to record an impairment charge to write down the asset to its realizable value. For other long-lived assets, we routinely consider whether indicators of impairment are present. If such indicators are present, we determine whether the sum of the estimated undiscounted cash flows attributable to the assets is less than their carrying value. If the sum is less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. We recognize an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value.

***Recent Accounting Pronouncements***

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

**LIQUIDITY AND CAPITAL RESOURCES**

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

***Cash Flow from Operating Activities***

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

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

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

***Cash Flow from Investing Activities***

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

***Cash Flow from Financing Activities***

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

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

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

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

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

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

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

**Fixed Income Securities**

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





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

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

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

**ITEM 4. Controls and Procedures*****Design of Disclosure Controls and Procedures and Internal Control over Financial Reporting***

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

***Disclosure Controls and Procedures***

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

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

***Changes in Internal Control over Financial Reporting***

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



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***Effectiveness of Controls***

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

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

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

**ITEM 1A. Risk Factors**

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

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

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

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

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

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



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

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

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

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

***Our Quarterly Revenues and Operating Results Are Variable***

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

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

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

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

***We May Incur Impairments to Goodwill or Long-lived Assets***

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

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

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

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

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

Our indebtedness could have adverse consequences, including:

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

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



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

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

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

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

• incur additional debt, assume obligations in connection with letters of credit, or issue guarantees;

• create liens;

• enter into transactions with our affiliates;

• sell certain assets; and

• merge or consolidate with any person.

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

***We Have a Limited Number of Key Customers***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***We Face a Challenging and Complex Competitive Environment***

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

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

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

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

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

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

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

• trade balance issues;

• tariffs and other barriers;

• developing customers and/or suppliers, whom may have limited access to capital resources;

• global or national economic and political conditions;

• changes in currency controls;

• differences in the enforcement of intellectual property and contract rights in varying jurisdictions;

• our ability to respond to customer and foreign government demands for locally sourced systems, spare parts, and services and develop the necessary relationships with local suppliers;

• compliance with U.S. and international laws and regulations affecting foreign operations, including U.S. and international trade restrictions and sanctions, anti-bribery, anti-corruption, environmental, tax, and labor laws;

• fluctuations in interest and foreign currency exchange rates;

• the need for technical support resources in different locations; and

• our ability to secure and retain qualified people, and effectively manage people, in all necessary locations for the successful operation of our business.

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

We are exposed to potentially adverse movements in foreign currency exchange rates. The majority of our sales and expenses are denominated in U.S. dollars. However, we are exposed to foreign currency exchange rate fluctuations primarily related to revenues denominated in Japanese yen and expenses denominated in euro and Korean won.

Currently, we hedge certain anticipated foreign currency cash flows, primarily anticipated revenues denominated in Japanese yen and expenses dominated in euro and Korean won. In addition, we enter into foreign currency hedge contracts to minimize the short-term impact of the foreign currency exchange rate fluctuations on certain foreign currency denominated monetary assets and liabilities, primarily third-party accounts receivables, accounts payables, and intercompany receivables and payables. We believe these are our primary exposures to currency rate fluctuation. We expect to continue to enter into hedging transactions, for the purposes outlined, for the foreseeable future.

However, these hedging transactions may not achieve their desired effect because differences between the actual timing of the underlying exposures and our forecasts of those exposures may leave us either over or under hedged on any given transaction. Moreover, by hedging these foreign currency denominated revenues, expenses, monetary assets, and liabilities, we may miss favorable currency trends that would have been advantageous to us but for the



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

government regulations;

developments in, or claims relating to, patent or other proprietary rights;

technological innovations and the introduction of new products by us or our competitors;

commercial success or failure of our new and existing products;

disruptions of relationships with key customers or suppliers; or

dilutive impacts of our Convertible Notes and related warrants.

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

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

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

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

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

***We Are Exposed to Various Risks from Our Regulatory Environment***

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

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

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

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

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

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

***Repurchases of Company Shares***

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

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

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

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

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



regarding our accelerated share repurchase activity during the fiscal year.

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*Accelerated Share Repurchase Agreements Executed in September Quarter*

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

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information**

None.

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**ITEM 6. Exhibits**

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

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**LAM RESEARCH CORPORATION**

**SIGNATURES**

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

Date: October 2, 2018  
LAM RESEARCH CORPORATION  
(Registrant)

/s/ Douglas R. Bettinger

**Douglas R. Bettinger**

**Executive Vice President, Chief Financial Officer**

**(Principal Financial Officer and Principal Accounting Officer)**