

ERICSSON LM TELEPHONE CO

Form 6-K

July 18, 2014

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 6-K**

**REPORT OF FOREIGN ISSUER**

**Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934**

**July 18, 2014**

**LM ERICSSON TELEPHONE COMPANY**

**(Translation of registrant's name into English)**

**Torshamnsgatan 21, Kista**

**SE-164 83, Stockholm, Sweden**

**(Address of principal executive offices)**

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

Announcement of LM Ericsson Telephone Company, dated July 18, 2014 regarding Second Quarter Report 2014

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**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.

TELEFONAKTIEBOLAGET LM ERICSSON (publ)

By: /s/ NINA MACPHERSON  
**Nina Macpherson**  
**Senior Vice President and**  
**General Counsel**

By: /s/ HELENA NORRMAN  
**Helena Norrman**  
**Senior Vice President**  
**Corporate Communications**

Date: **July 18, 2014**

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Second quarter report 2014

Stockholm, July 18, 2014

**SECOND QUARTER HIGHLIGHTS****Read more (page)**

Sales in the quarter were SEK 54.8 (55.3) b. Sales for comparable units, adjusted for currency, decreased -1% YoY and increased 13% QoQ	<b>3</b>
Sales recovered compared to the previous quarter driven by growth in the Middle East, China and India, as well as continued capacity business in North America	<b>2</b>
Gross margin increased YoY to 36.4% (32.4%), driven by strong development in capacity business, increased IPR revenues and lower restructuring charges	<b>3</b>
With current visibility, key contracts awarded will gradually impact sales and business mix, in the second half of the year	<b>2</b>
Operating margin improved YoY to 7.3% (4.5%), mainly driven by stronger performance in segment Networks	<b>3</b>
Operating income amounted to SEK 4.0 (2.5) b.	<b>5-8</b>
Cash flow from operating activities was SEK 2.1 (4.3) b.	<b>11</b>

<b>SEK b.</b>	<b>Q2 2014</b>	<b>Q2 2013</b>	<b>YoY change</b>	<b>Q1 2014</b>	<b>QoQ change</b>	<b>Six months 2014</b>	<b>Six months 2013</b>
Net sales	54.8	55.3	-1%	47.5	15%	102.4	107.4
<i>Sales growth adj. for comparable units and currency</i>			-1%		13%	-4%	7%
Gross margin	36.4%	32.4%		36.5%		36.4%	32.2%
Operating income	4.0	2.5	62%	2.6	52%	6.6	4.6
Operating margin	7.3%	4.5%		5.5%		6.5%	4.3%
Net income	2.7	1.5	76%	1.7	57%	4.4	2.7
EPS diluted, SEK	0.79	0.45	76%	0.65	22%	1.44	0.82
EPS (Non-IFRS), SEK <sup>1)</sup>	1.07	0.88	22%	0.90	19%	1.98	1.88
Cash flow from operating activities	2.1	4.3	-52%	9.4	-78%	11.5	1.3
Net cash, end of period	32.5	27.4	18%	43.6	-26%	32.5	27.4

<sup>1)</sup> EPS, diluted, excl. amortizations and write-downs of acquired intangible assets, and restructuring

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### CEO Comments

**Sales for comparable units, adjusted for currency, recovered compared to the previous quarter and were down by -1% year-over-year. Operating margin improved year-over-year, mainly driven by stronger performance in segment Networks.**

Sales in the quarter year-over-year were driven by growth in the Middle East, China and India, as well as continued capacity business in North America. This was offset by, as previously communicated, lower revenues from two large mobile broadband coverage projects in North America that peaked in the first half of 2013, and reduced activity in Japan.

The operating margin improved year-over-year, especially in segment Networks. This was due to a higher gross margin primarily from improved business mix with an increased share of mobile broadband capacity projects in advanced LTE markets, as well as higher recurring IPR revenues and efficiency improvements.

After a slow start of the year, we are executing on previously awarded 4G/LTE contracts in Mainland China and Taiwan. Furthermore, the investment climate in India is improving following the concluded spectrum auctions and government elections held in May.

Political unrest prevails in parts of the Middle East and Africa and is still impacting sales. There is also a continued political uncertainty in Russia and the Ukraine, but this had no negative impact on sales in the quarter.

As previously stated and with current visibility, key contracts awarded will gradually impact sales and business mix in the second half of the year.

In line with our strategic agenda, we have continued investing into new and targeted areas. The addition of the modems and Mediaroom businesses, as well as increased investments in IP, have resulted in increased R&D spending. At the same time, we continue to execute on profit improvement activities.

Our modems business will start generating sales by the end of this year, as our modem M7450 will be featured in smartphones and data devices. During the first half of 2014, we have invested SEK 1.2 b. primarily in R&D and we have a strong technology platform. However, the performance of the business is linked to our customers' success. As previously communicated, success will be measured in an 18-24 months timeframe after integration of the modems business, which was completed in August 2013.

Support Solutions showed negative result in the quarter due to lower sales related to legacy portfolio. However, the transition from traditional telecom software license business models to recurrent license revenue deals continues.

Operating cash flow was positive in the quarter driven mainly by improved income and maintained working capital days. The execution of the company-wide order-to-cash initiative continues and shows good progress.

In a transforming ICT market, we continue to evolve through investments in both our core business as well as in new and targeted areas. Through our technology and services leadership we are well positioned to continue to be a strategic partner to our customers as they move to capture new market opportunities.

**Hans Vestberg**

President and CEO

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## Financial highlights

<b>SEK b.</b>	<b>Q2 2014</b>	<b>Q2 2013</b>	<b>YoY change</b>	<b>Q1 2014</b>	<b>QoQ change</b>	<b>6 months 2014</b>	<b>6 months 2013</b>
Net sales	<b>54.8</b>	55.3	-1%	47.5	15%	<b>102.4</b>	107.4
<i>Of which Networks</i>	<b>29.0</b>	28.1	3%	24.4	19%	<b>53.3</b>	56.3
<i>Of which Global Services</i>	<b>23.1</b>	24.9	-7%	20.4	13%	<b>43.4</b>	46.3
<i>Of which Support Solutions</i>	<b>2.8</b>	2.3	21%	2.8	2%	<b>5.6</b>	4.8
<i>Of which Modems</i>	<b>0.0</b>			0.0		<b>0.0</b>	
Gross income	<b>19.9</b>	17.9	11%	17.3	15%	<b>37.3</b>	34.6
Gross margin (%)	<b>36.4%</b>	32.4%		36.5%		<b>36.4%</b>	32.2%
Research and development expenses	<b>-9.1</b>	-7.7	17%	-8.3	10%	<b>-17.4</b>	-15.6
Selling and administrative expenses	<b>-6.5</b>	-6.6	-1%	-6.5	1%	<b>-13.0</b>	-13.3
Other operating income and expenses	<b>-0.2</b>	-1.0	-80%	0.0		<b>-0.2</b>	-1.0
Operating income	<b>4.0</b>	2.5	62%	2.6	52%	<b>6.6</b>	4.6
Operating margin	<b>7.3%</b>	4.5%		5.5%		<b>6.5%</b>	4.3%
<i>for Networks</i>	<b>12%</b>	5%		10%		<b>11%</b>	5%
<i>for Global Services</i>	<b>6%</b>	6%		5%		<b>6%</b>	5%
<i>for Support Solutions</i>	<b>-13%</b>	-12%		0%		<b>-7%</b>	-7%
<i>for Modems</i>							
Financial net	<b>-0.2</b>	-0.3	-35%	-0.2	-7%	<b>-0.4</b>	-0.7
Taxes	<b>-1.1</b>	-0.6	76%	-0.7	57%	<b>-1.9</b>	-1.2
Net income	<b>2.7</b>	1.5	76%	1.7	57%	<b>4.4</b>	2.7
<i>Restructuring charges</i>	<b>-0.2</b>	-0.9	-74%	-0.1	87%	<b>-0.4</b>	-2.8

**Net sales**

Sales in the quarter, compared to last year, were driven by growth in the Middle East, China and India, as well as continued capacity business in North America. This was offset by, as previously communicated, lower revenues from two large mobile broadband coverage projects in North America that peaked in the first half of 2013, and the impact from reduced activity in Japan.

Segment Networks sales grew YoY while sales in Network Rollout, within segment Global Services, continued to decline. IPR revenues grew YoY following the Samsung license agreement reached in January 2014.

Sales increased sequentially after a weak Q1 2014, driven by strong sales in North America, China and Brazil.

**Gross margin**

Gross margin increased YoY. Continued strong development in capacity business contributed to higher hardware margins. Increased IPR revenues, lower restructuring charges and efficiency improvements combined with lower Network Rollout sales, also contributed positively to the gross margin.

**Restructuring charges**

Restructuring charges increased somewhat QoQ but remained at a low level and decreased YoY. The execution on the service delivery strategy, to move local service delivery resources to global centers, continues, but at slower pace compared to last year.

### **Operating expenses**

Total operating expenses increased YoY, mainly due to increased R&D expenses primarily related to the added modems and Mediaroom businesses.

SG&A expenses decreased slightly YoY.



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Quarterly sales, SEK b. and reported sales growth year over year, percent	Operating expenses, SEK b. and operating expenses as percentage of sales	Operating income SEK b. and operating margin, percent
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**Other operating income and expenses**

The revaluation effect from hedges was SEK -0.5 b. compared to SEK -0.1 b. in Q1 2014 and -0.2 b. in Q2 2013. In Q2 2013, there were one-time items of SEK -0.9 b. related to divestments and for exiting the power and telecom cable operations.

**Operating income**

Operating income increased YoY driven by favorable business mix, IPR revenues and lower restructuring charges, partly offset by increased operating expenses.

Q2 2013 was also impacted by the one-time items of SEK -0.9 b. as mentioned above.

**Financial net**

Financial net improved slightly YoY mainly due to interest rate revaluation effects.

**Net income and EPS**

Net income and EPS diluted increased following the improved operating income.

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Segment results

**NETWORKS**

Segment sales, SEK b.	Quarterly sales, SEK b. and sales growth year over year				Operating income, SEK b. and operating margin, percent		
SEK b.	Q2 2014	Q2 2013	YoY change	Q1 2014	QoQ change	6 months 2014	6 months 2013
Net sales	29.0	28.1	3%	24.4	19%	53.3	56.3
<i>Sales growth adj. for comparable units and currency</i>			5%		16%	-3%	7%
Operating income	3.6	1.3	168%	2.5	44%	6.1	2.9
Operating margin	12%	5%		10%		11%	5%
EBITA margin	14%	7%		13%		14%	8%
Restructuring charges	-0.1	-0.3	-59%	-0.1	38%	-0.2	-1.6

**Net sales**

Sales, adjusted for comparable units and currency, recovered in the quarter driven by growth in the Middle East, China, US and India. The majority of sales growth was in Radio Access. In addition, IP Edge and IMS solutions showed good growth. Capacity business developed favorably also this quarter, particularly in advanced LTE markets, driven by operators' focus on network performance as a key differentiator. The decline in mobile broadband coverage projects in North America and Japan continued as expected.

Sales increased QoQ following a weak first quarter 2014. CDMA sales have stabilized with sales at SEK 0.4 b. in the quarter with a YoY sales decline.

**Operating income and margin**

For the fourth consecutive quarter, operating margin was 10% or above and operating income has more than doubled over the last six months. The YoY increase was supported by improved business mix, higher IPR revenues and continued focus on commercial excellence and operational effectiveness. The operating margin increased QoQ as a result of higher sales volumes.

**Business update**

Mobile broadband demand, VoLTE and growing interest in LTE broadcast drives performance initiatives including carrier aggregation and network densification. Small cells and the use of new frequency bands will also be key to address demand.

The momentum for the multi-application router, SSR 8000, continued with 120 contracts signed since the launch in December 2011. During the quarter, 11 new contracts were signed of which 3 were for fixed networks.

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**Table of Contents****GLOBAL SERVICES**

Segment sales, SEK b.	Quarterly sales, SEK b.			Operating income, SEK b.			
	and sales growth year over year			and operating margin, percent			
SEK b.	Q2 2014	Q2 2013	YoY change	Q1 2014	QoQ change	6 months 2014	6 months 2013
Net sales	23.1	24.9	-7%	20.4	13%	43.4	46.3
<i>Of which Professional Services</i>	16.6	16.8	-1%	15.1	10%	31.7	31.4
<i>Of which Managed Services</i>	6.5	6.8	-4%	5.8	13%	12.2	12.6
<i>Of which Network Rollout</i>	6.5	8.1	-19%	5.3	23%	11.8	14.9
<i>Sales growth adj. for comparable units and currency</i>			-8%		11%	-5%	9%
Operating income	1.5	1.6	-5%	1.0	44%	2.5	2.3
<i>Of which Professional Services</i>	2.1	2.3	-8%	1.9	11%	4.0	4.1
<i>Of which Network Rollout</i>	-0.6	-0.7	-16%	-0.9	-29%	-1.5	-1.8
Operating margin	6%	6%		5%		6%	5%
<i>for Professional Services</i>	13%	14%		13%		13%	13%
<i>for Network Rollout</i>	-9%	-9%		-16%		-12%	-12%
EBITA margin	8%	7%		6%		7%	6%
<i>Restructuring charges</i>	-0.1	-0.6	-86%	0.0	153%	-0.1	-1.0

**Net sales**

Sales, adjusted for comparable units and currency, declined due to reduced mobile broadband network rollout activities in North America and Japan. Professional Services sales remained stable.

Managed Services continues to show high business activity and sales grew QoQ. During the quarter, several new contracts were announced, including a 5-year managed services deal in Romania involving more than 700 employees moving to Ericsson.

Global Services sales increased QoQ driven by increased activities in North America, impacting both Professional Services and Network Rollout.

**Operating income and margin**

Operating margin remained stable YoY. Network Rollout profitability improved sequentially, due to a reduced negative impact from the European modernization projects and lower temporary project costs in North America.

Professional Services margin declined slightly YoY due to lower sales.

## Business update

The acquisition of Red Bee Media was finalized and consolidated as of May. The acquisition has strengthened Ericsson's position in the transforming television and media industry and several new contracts have been signed in the quarter.

<b>Other information</b>	<b>Q2 2014</b>	<b>Q1 2014</b>	<b>Full year 2013</b>
Number of signed Managed Services contracts	21	16	84
Number of signed significant consulting & systems integration contracts <sup>1)</sup>	12	9	31
Number of Ericsson services professionals, end of period	64,000	61,000	64,000

<sup>1)</sup> In the areas of OSS and BSS, IP, Service Delivery Platforms and data center build projects.

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Segment sales, SEK b.	Quarterly sales, SEK b. and sales growth year over year				Operating income, SEK b. and operating margin, percent		
SEK b.	Q2 2014	Q2 2013	YoY change	Q1 2014	QoQ change	6 months 2014	6 months 2013
Net sales	2.8	2.3	21%	2.8	2%	5.6	4.8
<i>Sales growth adj. for comparable units and currency</i>			5%		1%	4%	-12%
Operating income	-0.4	-0.3	34%	0.0		-0.4	-0.3
Operating margin	-13%	-12%		0%		-7%	-7%
EBITA margin	-7%	-6%		7%		0%	0%
Restructuring charges	0.0	0.0	0%	0.0		0.0	-0.1

**Net sales**

Reported sales, and sales adjusted for comparable units and currency, increased YoY. Growth from the acquired Mediaroom business and in OSS was partly offset by lower BSS sales in Latin America, Sub-Saharan Africa and India.

Sales increased slightly QoQ with strong growth in North America offset by weak sales in emerging markets.

**Operating income and margin**

Operating income and margin declined YoY and QoQ due to lower sales from legacy portfolio. In addition, investments in next-generation TV solutions are accelerating and this impacted operating income negatively.

**Business update**

An important multi-year BSS contract with T-Mobile in the US was announced in the quarter. The contract includes software, professional services and third party hardware.

The overall transition from traditional telecom software license business models to recurrent license revenue deals continues.

**Table of Contents****MODEMS**

<b>SEK b.</b>	<b>Q2 2014</b>	<b>Q1 2014</b>	<b>QoQ change</b>
Net sales	<b>0.0</b>	0.0	
<i>Sales growth for comparable units and currency</i>			
Operating income	<b>-0.5</b>	-0.7	-39%
Operating margin			
EBITA margin			
<i>Restructuring charges</i>	<b>0.0</b>	0.0	

**Background**

Since August 2013, Ericsson has a LTE thin-modems business with industry leading technology and intellectual property. The operation was integrated into Ericsson after the split-up of the joint venture ST-Ericsson last year. Modems are part of Ericsson's vision of 50 billion connected devices and the ambition is to be a leading supplier in the thin-modems market. The first product, Ericsson M7450, was released for commercial use in Q4 2013.

**Operating income**

Operating income was SEK -0.5 b. Total operating expenses for the modems business in 2014 are still estimated at approximately SEK -2.6 b.

Net sales are expected in the second half of 2014.

**Business update**

Global operator certification for M7450 is progressing as planned, and work is ongoing with tier one smartphone manufacturers to integrate it in their devices. Smartphones and data devices featuring M7450 will be on the market by the end of this year.

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## Regional Sales

SEK b.	Second quarter 2014				Change	
	Global	Support			YoY	QoQ
	Networks	Services	Solutions	Total		
North America	7.7	6.4	1.1	15.2	-1%	24%
Latin America	2.6	2.6	0.2	5.4	-3%	15%
Northern Europe and Central Asia	1.8	0.9	0.0	2.7	0%	12%
Western and Central Europe	1.8	2.6	0.2	4.6	1%	5%
Mediterranean	2.5	2.9	0.2	5.5	-11%	15%
Middle East	2.5	1.8	0.2	4.5	13%	17%
Sub-Saharan Africa	0.9	1.0	0.1	1.9	-29%	4%
India	0.9	0.7	0.0	1.6	29%	-3%
North East Asia	4.3	2.0	0.1	6.4	-4%	31%
South East Asia and Oceania	1.8	1.7	0.1	3.7	-3%	6%
Other <sup>1)</sup>	2.2	0.5	0.6	3.4	23%	3%
<b>Total</b>	<b>29.0</b>	<b>23.1</b>	<b>2.8</b>	<b>54.8</b>	<b>-1%</b>	<b>15%</b>

<sup>1)</sup> Region Other includes licensing revenues, broadcast services, power modules, mobile broadband modules, Ericsson-LG Enterprise and other businesses.

**North America**

Sales in the quarter were driven by network quality and capacity expansion business, primarily as a result of increasing video traffic. This was offset by lower revenues from two large mobile broadband coverage projects that peaked in the first half of 2013. Recent network ICT transformation contracts, including the modernization of OSS and BSS, drove the Professional Services business.

**Latin America**

Sales decreased slightly YoY. Operators continue to invest to increase 3G network quality as well as deploy LTE.

**Northern Europe and Central Asia**

Sales were stable driven by mobile broadband infrastructure investments in Russia and operator focus on network quality. The non-operator business in the Nordics continued to show stable progress.

**Western and Central Europe**

Sales increased YoY predominantly driven by Managed Services. Investments in network quality and capacity continue to be the main driver. However, this does not fully offset the decline in network modernization projects. Support Solutions increased YoY through the inclusion of Mediaroom.

**Mediterranean**



Sales in the region declined YoY due to major modernization projects that peaked in the beginning of 2013. Demand for Professional Services continued, driven by Managed Services.

### **Middle East**

Sales continued to show solid growth YoY mainly driven by 3G deployments. 4G is also being deployed in parts of the region. Overall demand for network infrastructure is driven by the rapid increase in data traffic, as well as coverage requirements fueled by new mobile licenses.

### **Sub-Saharan Africa**

During the quarter, sales declined due to overall cautious operator investment levels. This was partly offset by growth in Managed Services as operators seek operational efficiencies.

### **India**

Sales grew YoY as operators increased mobile broadband infrastructure spending in response to rising data volumes. Increased sales related to OSS and BSS also contributed to growth.

### **North East Asia**

Sales decreased YoY as a result of expected lower network investment levels in Japan and the continued structural decline of GSM in China. The decline was partly offset by execution on previously awarded 4G/LTE contracts in Mainland China and Taiwan.

### **South East Asia and Oceania**

Networks sales declined further as major 3G projects in Indonesia peaked in 2013. Global Services sales increased QoQ and YoY driven by a significant rollout project in Australia. There is an increased focus on network quality to improve customer experience in several markets.

### **Other**

Licensing revenues showed good development YoY, following the Samsung agreement. Broadcast services continued to grow as the acquired Red Bee Media business was consolidated in the quarter.

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## Cash flow

<b>SEK b.</b>	<b>Q2 2014</b>	<b>Q2 2013</b>	<b>Q1 2014</b>
Net income reconciled to cash	<b>5.9</b>	3.5	3.2
Changes in operating net assets	<b>-3.8</b>	0.8	6.2
Cash flow from operating activities	<b>2.1</b>	4.3	9.4
Cash flow from investing activities	<b>3.7</b>	7.5	-8.8
Cash flow from financing activities	<b>-12.2</b>	-13.1	-5.1
<b>Net change in cash and cash equivalents</b>	<b>-5.0</b>	<b>1.0</b>	<b>-4.0</b>
<b>Cash conversion (%)</b>	<b>35%</b>	<b>123%</b>	<b>290%</b>

The positive cash flow from operating activities was driven by strong income with maintained working capital days. Working capital increased mainly as a result of increased sales and preparation for new projects.

Investing activities were impacted by acquisitions of SEK -1.5 b., primarily related to Red Bee Media, and normal capex investments of SEK -1.3 b.

Short-term investments with maturity of more than 3 months have decreased by SEK 7.0 b., primarily as a result of transferred liquidity to Cash and cash equivalents in order to cater for dividend payout.

Cash flow from financing activities in the quarter was mainly related to dividend payouts of SEK -9.8 b. and repayment of debt of SEK -2.0 b.

Payments for ongoing restructuring charges amounted to approximately SEK 0.2 b. in the quarter.

<b>Working capital KPIs, number of days</b>	<b>Jan-Jun 2014</b>	<b>Jan-Mar 2014</b>	<b>Jan-Dec 2013</b>	<b>Jan-Sep 2013</b>	<b>Jan-Jun 2013</b>
Sales outstanding	<b>113</b>	112	97	109	103
Inventory	<b>70</b>	72	62	72	73
Payable	<b>61</b>	62	53	53	55

Days of sales outstanding increased, mainly due to increased sales in the quarter.

Inventory days decreased due to higher volumes and improved process lead times. However, inventory levels increased as an effect of preparation for coming mobile broadband deployments.

Efforts to reduce working capital through a better order-to-cash process continue.



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## Financial position

	<b>Jun 30</b>	<b>Mar 31</b>	<b>Dec 31</b>
<b>SEK b.</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>
+ Short-term investments	<b>35.3</b>	41.8	35.0
+ Cash and cash equivalents	<b>33.1</b>	38.1	42.1
<b>Gross cash</b>	<b>68.4</b>	<b>79.9</b>	<b>77.1</b>
- Interest bearing liabilities and post-employment benefits	<b>35.9</b>	36.3	39.3
<b>Net cash</b>	<b>32.5</b>	<b>43.6</b>	<b>37.8</b>
Equity	<b>138.0</b>	142.6	141.6
Total assets	<b>265.5</b>	267.2	269.2
Capital turnover (times)	<b>1.2</b>	1.1	1.3
Return on capital employed (%)	<b>8.2%</b>	6.7%	10.7%
Equity ratio (%)	<b>52.0%</b>	53.4%	52.6%
Return on equity (%)	<b>6.8%</b>	6.0%	8.7%

Net cash decreased in the quarter as a result of dividend payout. Borrowings decreased after a loan repayment of EUR 220 million (SEK 2.0 b.) that matured in the quarter.

Post-employment benefits increased by SEK 1.3 b., mainly due to lower discount rates.

The average maturity of long-term borrowings as of June 30, 2014, was 6.2 years, compared to 5.4 years 12 months ago.

Ericsson has one unutilized Revolving Credit Facility of USD 2.0 b. During the quarter the facility was extended by one year and will mature 2020.

Debt maturity profile, Parent Company, SEK b.

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Parent company

Income after financial items was SEK 2.9 (2.7) b.

Major changes in the Parent Company's financial position for the year; decreased cash, cash equivalents and short-term investments of SEK 6.1 b., increased current and non-current receivables to subsidiaries of SEK 5.2 b. and increased current and non-current liabilities to subsidiaries of SEK 12.6 b. At the end of the quarter, cash, cash equivalents and short-term investments amounted to SEK 52.4 (58.5) b.

In June the Parent Company repaid bonds of EUR 220 million at maturity date.

A dividend payment of SEK 9.7 b. was made in the quarter as decided by the Annual General Meeting.

In accordance with the conditions of the long-term variable compensation program (LTV) for Ericsson employees, 2,172,945 shares from treasury stock were sold or distributed to employees during the second quarter. The holding of treasury stock at June 30, 2014, was 69,017,337 Class B shares.

Ericsson Second Quarter Report 2014

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Other information

### **Ericsson's Nomination Committee appointed**

On May 21, 2014, Ericsson announced that the Nomination Committee for the Annual General Meeting (AGM) 2015 has been appointed in accordance with the Instruction for the Nomination Committee resolved by the AGM 2012.

### **Ericsson completes acquisition of Red Bee Media**

On May 12, 2014, Ericsson announced completion of its acquisition of Red Bee Media, a leading media services company headquartered in the UK, from Creative Broadcast Services Holdings - an entity controlled by Macquarie Advanced Investment Partners, L.P. Ericsson announced its intention to acquire Red Bee Media on July 1, 2013, and the UK's Competition Commission formally cleared the acquisition on March 27, 2014.

### **Ericsson appoints Rima Qureshi as Chief Strategy Officer**

On April 30, 2014, Ericsson announced the appointment of Rima Qureshi as Chief Strategy Officer for the Ericsson Group. She will also drive the company's mergers and acquisitions (M&A) strategy and activities. In addition, she will serve as Chairman of Business Unit Modems.

### **New structure to support segment Networks growth**

On April 24, 2014, Ericsson announced the establishment of two new business units within segment Networks in a move to accelerate transformation and support growth. The company has created two new units, Business Unit Radio and Business Unit Cloud & IP, replacing the old Business Unit Networks. The change in organization will enable more focus on the needs of each business while maintaining an end-to-end view on segment Networks. Johan Wibergh, Executive Vice President, will continue to lead segment Networks and remains a member of Ericsson's Executive Leadership Team.

### **Composition of the Board of Directors**

In conjunction with the AGM on April 11, 2014, Ericsson announced that, in accordance with the proposal of the Nomination Committee, Leif Johansson was re-elected Chairman of the Board of Directors. Roxanne S. Austin, Sir Peter L. Bonfield, Nora Denzel, Börje Ekholm, Alexander Izosimov, Ulf J. Johansson, Sverker Martin-Löf, Kristin Skogen Lund, Hans Vestberg, Jacob Wallenberg and Pär Östberg were re-elected to the Board. Board members appointed by the unions are Pehr Claesson, Kristina Davidsson and Karin Åberg. Deputy board members appointed by the unions are Rickard Fredriksson, Karin Lennartsson and Roger Svensson.

### **Antitrust investigations against Ericsson**

In March 2013, Ericsson filed a patent infringement lawsuit in the Indian Delhi High Court against Micromax Informatics Limited. As part of its defense, Micromax filed a complaint with the Competition Commission of India (CCI) and in November 2013 the CCI decided to refer the case to the Director General's Office for an in-depth investigation. In January 2014 the CCI announced they had opened another investigation against Ericsson based on claims made by Intex Technologies (India) Limited. Ericsson has made numerous attempts to sign a license agreement with Micromax and Intex on Fair, Reasonable and Non-discriminatory (FRAND) terms.

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### Risk factors

Ericsson's operational and financial risk factors and uncertainties along with our strategies and tactics to mitigate risk exposures or limit unfavorable outcomes are described in our Annual Report 2013. Compared to the risks described in the Annual Report 2013, no material, new or changed risk factors or uncertainties have been identified in the year.

Risk factors and uncertainties in focus short-term for the Parent Company and the Ericsson Group include:

Potential negative effects on operators' willingness to invest in network development due to uncertainty in the financial markets and a weak economic business environment, or reduced consumer telecom spending, or increased pressure on us to provide financing;

Uncertainty regarding the financial stability of suppliers, for example due to lack of financing;

Effects on gross margins and/or working capital of the product mix in the Networks segment between sales of upgrades and expansions (mainly software) and new build outs of coverage (mainly hardware);

Effects on gross margins of the product mix in the Global Services segment including proportion of new network build outs and share of new managed services deals with initial transition costs;

A continued volatile sales pattern in the Support Solutions segment or variability in our overall sales seasonality could make it more difficult to forecast future sales;

Effects of the ongoing industry consolidation among our customers as well as between our largest competitors, e.g. with postponed investments and intensified price competition as a consequence;

Changes in foreign exchange rates, in particular USD, JPY and EUR;

Political unrest or instability in certain markets;

Effects on production and sales from restrictions with respect to timely and adequate supply of materials, components and production capacity and other vital services on competitive terms;

Natural disasters and other events, affecting business, production, supply and transportation.

Ericsson stringently monitors the compliance with all relevant trade regulations and trade embargos applicable to dealings with customers operating in countries where there are trade restrictions or trade restrictions are discussed. Moreover, Ericsson operates globally in accordance with Group policies and directives for business ethics and



conduct.

Stockholm, July 18, 2014

Telefonaktiebolaget LM Ericsson

Hans Vestberg, President and CEO

Org. Nr. 556016-0680

This report has not been reviewed by

Telefonaktiebolaget LM Ericsson's auditors.

Date for next report: October 24, 2014

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### Board Assurance

The Board of Directors and the CEO certify that the financial report for the six months gives a fair view of the performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Stockholm, July 18, 2014

Telefonaktiebolaget LM Ericsson (publ)

Org. Nr. 556016-0680

<i>Sverker Martin-Löf</i>	<i>Leif Johansson</i>	<i>Jacob Wallenberg</i>
<i>Deputy chairman</i>	<i>Chairman</i>	<i>Deputy chairman</i>
<i>Roxanne S. Austin</i>	<i>Sir Peter L. Bonfield</i>	<i>Nora Denzel</i>
<i>Member of the board</i>	<i>Member of the board</i>	<i>Member of the board</i>
<i>Börje Ekholm</i>	<i>Ulf J. Johansson</i>	<i>Kristin Skogen Lund</i>
<i>Member of the board</i>	<i>Member of the board</i>	<i>Member of the board</i>
<i>Alexander Izosimov</i>		<i>Pär Östberg</i>
<i>Member of the board</i>		<i>Member of the board</i>
<i>Pehr Claesson</i>	<i>Kristina Davidsson</i>	<i>Karin Åberg</i>
<i>Member of the board</i>	<i>Member of the board</i>	<i>Member of the board</i>
	<i>Hans Vestberg</i>	
	<i>Member of the board and</i>	
	<i>President and CEO</i>	

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Editor's note

Ericsson invites media, investors and analysts to a press briefing at the Ericsson Studio, Grönlandsgången 4, Stockholm, at 09.00 (CET), July 18, 2014. An analysts, investors and media conference call will begin at 14.00 (CET).

Live webcast of the press conference and conference call as well as supporting slides will be available at

[www.ericsson.com/press](http://www.ericsson.com/press) and

[www.ericsson.com/investors](http://www.ericsson.com/investors)

Video material will be published during the day on

[www.ericsson.com/press](http://www.ericsson.com/press)

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Safe harbor statement

All statements made or incorporated by reference in this release, other than statements or characterizations of historical facts, are forward-looking statements. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Forward-looking statements can often be identified by words such as anticipates, expects, intends, plans, predicts, believes, seeks, estimates, may, will, should, would, potential, continue, and variations or negatives and include, among others, statements regarding: (i) strategies, outlook and growth prospects; (ii) positioning to deliver future plans and to realize potential for future growth; (iii) liquidity and capital resources and expenditure, and our credit ratings; (iv) growth in demand for our products and services; (v) our joint venture activities; (vi) economic outlook and industry trends; (vii) developments of our markets; (viii) the impact of regulatory initiatives; (ix) research and development expenditures; (x) the strength of our competitors; (xi) future cost savings; (xii) plans to launch new products and services; (xiii) assessments of risks; (xiv) integration of acquired businesses; (xv) compliance with rules and regulations and (xvi) infringements of intellectual property rights of others.

In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements speak only as of the date hereof and are based upon the information available to us at this time. Such information is subject to change, and we will not necessarily inform you of such changes. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. Important factors that may cause such a difference for Ericsson include, but are not limited to: (i) material adverse changes in the markets in which we operate or in global economic conditions; (ii) increased product and price competition; (iii) reductions in capital expenditure by network operators; (iv) the cost of technological innovation and increased expenditure to improve quality of service; (v) significant changes in market share for our principal products and services; (vi) foreign exchange rate or interest rate fluctuations; and (vii) the successful implementation of our business and operational initiatives.

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**Table of Contents****CONSOLIDATED INCOME STATEMENT**

		Apr - Jun			Jan - Jun		
2013		2014	Change	2013	2014	Change	
55,331		54,849	-1%	107,363	102,354	-5%	
-37,412		-34,910	-7%	-72,806	-65,094	-11%	
17,919		19,939	11%	34,557	37,260	8%	
32.4%		36.4%		32.2%	36.4%		
-7,747		-9,084	17%	-15,624	-17,359	11%	
-6,629		-6,541	-1%	-13,272	-12,993	-2%	
-14,376		-15,625	9%	-28,896	-30,352	5%	
-1,040		-206		-1,020	-185		
							525,579 -- -- 582,885 249,100 24,
							492,679 -- -- 496,650 192,917 __ 25,
-38		-109		-70	-94		2006
2007 243,726 --	6,668(b)	219,896 117,500	13,129(f)	600,919			
2006 114,067 --	--	100,575 40,030 __	86,801(g)	341,473			
2007 165,519 --	15,680(c) --	29,634	11,564(f)	222,397			
2006 158,137 --	12,626(d) --	36,895 __	11,685(g)	219,343			

(a) Includes portion of salary deferred at named executive's election under the Company's Profit Sharing and Saving Plan.

(b) Compensation received by Mr. McFall reflects the vesting of stock awards granted to him under the Company's Performance Incentive Plan ("PIP") in 2006. All shares awarded under the PIP vest in equal installments over a three-year period commencing on the first anniversary of the award and are based on the achievement of certain performance goals.

(c) Compensation received by Mr. Shaw reflects the vesting of stock awards granted to him under the Company's Performance Incentive Plan ("PIP") in 2005, 2006 and 2007. All shares awarded under the PIP vest in equal installments over a three-year period commencing on the first anniversary of the award and are based on the achievement of certain performance goals.

(d) Compensation received by Mr. Shaw reflects the vesting of stock awards granted to him under the Company's Performance Incentive Plan ("PIP") in 2004, 2005 and 2006. All shares awarded under the PIP vest in equal installments over a three-year period commencing on the first anniversary of the award and



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are based on the achievement of certain performance goals.

- (e) Option awards granted to the named executive officers become exercisable with respect to 25% of the covered shares one year from the date of grant; 50% exercisable two years from the date of grant; 75% exercisable three years from the date of grant and the remainder become exercisable four years from the date of grant. The amounts recognized in the above table reflect the amounts recognized as compensation expense in the Company's Annual Report on Form 10-K for the fiscal years ended December 31, 2006 and 2007 in accordance with Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ("SFAS No. 123R"). In conjunction with the provisions of SFAS 123R, the Company amortizes compensation expense for the grant date fair value of option awards evenly over the vesting period under the straight-line method. However, in circumstances where the service period for an option award is nonsubstantive because of an award's eligibility for immediate vesting under the retirement provisions of the plan, the Company recognizes compensation expense evenly over the substantive service period. The awards granted to Mr. O'Reilly and Mr. Wise in 2006 and 2007 are eligible for immediate vesting upon their retirement provided that they provide notice of their intent to retire one year prior to their retirement date. As such, the option award compensation reflected in the table above for Mr. O'Reilly and Mr. Wise reflects the amortization of the grant date fair value over a substantive service period of one year.
- (f) Includes Company contributions of \$13,920, \$16,455, \$12,866, \$6,821 and \$5,184 to its Profit Sharing and Savings Plan and Deferred Compensation Plan made on behalf of David O'Reilly, Gregory Henslee, Ted Wise, Thomas McFall and Jeff Shaw, respectively.
- (g) Includes Company contributions of \$15,450, \$14,442, \$12,671, \$154 and \$5,567 to its Profit Sharing and Savings Plan and Deferred Compensation Plan made on behalf of David O'Reilly, Gregory Henslee, Ted Wise, Thomas McFall and Jeff Shaw, respectively. The amount reflected for Thomas McFall also includes \$83,662 in relocation expenses paid in conjunction with his hiring and relocation to Springfield, Missouri.

The following table shows all grants of awards in 2007 to each of the Executive Officers named in the Summary Compensation Table:

# GRANTS OF PLAN-BASED AWARDS

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Options Awards	Grant Date Fair Value of Stock and Option Awards
		(a)						(#)	(#)		
Name	Grant Date	(\$)	(\$)	(\$)	(#)	(#)	(#)	(b)	(c)	(\$/Sh)	
David E. O'Reilly	02/15/07	--	--	--	--	--	--	--	35,000	34.71	465,850
	02/15/07	--	400,000	--	--	--	--	--	--	--	--
Gregory L. Henslee	02/15/07	--	--	--	--	--	--	--	50,000	34.71	665,500
	02/15/07	--	650,000	--	--	--	--	--	--	--	--
Ted F. Wise	02/15/07	--	--	--	--	--	--	--	45,000	34.71	598,950
	02/15/07	--	424,000	--	--	--	--	--	--	--	--
Thomas G. McFall	02/15/07	--	--	--	--	--	--	--	10,000	34.71	133,100
	02/15/07	--	200,000	--	--	--	--	--	--	--	--
	03/01/07	--	--	--	--	--	587	--	--	--	19,970
Jeff M. Shaw	03/01/07	--	38,850	--	--	--	--	--	--	--	--
	03/01/07	--	--	--	--	--	541	--	--	--	18,405

- (a) The estimated future payout under non-equity incentive plan columns refer to the potential payouts under the Company's annual bonus plans. The Compensation Committee approved the goals for the 2007 bonus plans in February 2007. The payout amounts for each Executive were reviewed and approved by the Compensation Committee and the Board of Directors in February 2008 upon completion of the consolidated financial statements for the fiscal year ended December 31, 2007. The Summary Compensation Table details amounts actually paid under the 2007 annual bonus plans in the column *Non-Equity Incentive Plan Compensation*.
- (b) Restricted shares granted on March 1, 2007 under the Company's 2005 Performance Incentive Plan, which vest in three equal installments on December 31, 2007, 2008 and 2009.
- (c) Option awards granted to the named executive officers become exercisable with respect to 25% of the covered shares one year from the date of grant; 50% exercisable two years from the date of grant; 75% exercisable three years from the date of grant and the remainder become exercisable four years from the date of grant.

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The following table details information concerning unexercised stock options, stock options that have not vested and stock awards that have not vested for each of the Executive Officers named in the Summary Compensation Tables as of December 31, 2007:

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Equity Incentive Plan Awards:		Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards:	Equity Incentive Plan Awards:
			Number of Securities Underlying Unexercised Options	Option Exercise Price				Number of Shares, Units or Other Rights That Have Not Vested	Market or Payout Value Unearned of Shares, Units or Other Rights That Have Not Vested
	(#)	(#)	(#)	(\$)		(#)	(\$)	(#)	(\$)
David E. O'Reilly	Exercisable	Unexercisable							
	60,000	--	--	13.26	06/14/11	--	--	--	--
	150,000	--	--	11.78	02/13/13	--	--	--	--
	157,500	--	--	18.78	02/05/14	--	--	--	--
	80,000	--	--	23.20	02/03/15	--	--	--	--
	15,000	--	--	24.84	04/06/15	--	--	--	--
	22,500	22,500(a)	--	32.78	02/09/16	--	--	--	--
Gregory L. Henslee	8,750	26,250(b)	--	34.71	02/15/17	--	--	--	--
	60,000	--	--	13.26	06/14/11	--	--	--	--
	82,000	--	--	11.78	02/13/13	--	--	--	--
	86,100	--	--	18.78	02/05/14	--	--	--	--
	45,000	--	--	23.20	02/03/15	--	--	--	--
	15,000	--	--	24.84	04/06/15	--	--	--	--
	25,000	25,000(a)	--	32.78	02/09/16	--	--	--	--
Ted F. Wise	12,500	37,500(b)	--	34.71	02/15/17	--	--	--	--
	60,000	--	--	13.26	06/14/11	--	--	--	--
	82,000	--	--	11.78	02/13/13	--	--	--	--
	86,100	--	--	18.78	02/05/14	--	--	--	--
	45,000	--	--	23.20	02/03/15	--	--	--	--
	15,000	--	--	24.84	04/06/15	--	--	--	--
	22,500	22,500(a)	--	32.78	02/09/16	--	--	--	--
Thomas G. McFall	11,250	33,750(b)	--	34.71	02/15/17	--	--	--	--
	12,500	37,500(c)	--	31.69	05/31/16	--	--	--	--
	3,750	11,250(d)	--	32.06	12/31/16	--	--	--	--
	2,500	7,500(b)	--	34.71	02/15/17	--	--	--	--
Jeff M. Shaw	--	--	--	--	--	391(e)	12,680	--	--
	40,000	--	--	10.66	08/05/09	--	--	--	--
	40,000	--	--	13.26	06/14/11	--	--	--	--
	30,000	--	--	19.26	12/30/13	--	--	--	--
	7,500	--	--	24.84	04/06/15	--	--	--	--
	--	--	--	--	--	551(f)	17,869	--	--

(a) Represents stock options granted on February 9, 2006, which become exercisable in four equal installments on February 9, 2007, 2008, 2009 and 2010.

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- (b) Represents stock options granted on February 15, 2007, which become exercisable in four equal installments on February 15, 2008, 2009, 2010 and 2011
- (c) Represents stock options granted on May 31, 2006, which become exercisable in four equal installments on May 31, 2007, 2008, 2009 and 2010.
- (d) Represents stock options granted on December 31, 2006, which become exercisable in four equal installments on December 31, 2007, 2008, 2009 and 2010.
- (e) Represents restricted shares granted on March 1, 2007 under the Company's Performance Incentive Plan, which vest in two installments of 196 shares on December 31, 2008 and 195 shares on December 31, 2009.
- (f) Represents restricted shares granted on February 21, 2006 and March 1, 2007 under the Company's Performance Incentive Plan, which vest in two installments of 371 shares on December 31, 2008 and 180 shares on December 31, 2009.

The following table lists option awards exercised and shares of stock awards vested during 2007 and the aggregate dollar values realized upon such exercise or vesting for each of the Executive Officers:

### OPTION EXERCISES AND STOCK VESTED

	OPTION AWARDS		STOCK AWARDS	
	Number of Shares Acquired On Exercise	Value Realized On Exercise	Number of Shares Acquired On Vesting	Value Realized On Vesting
Name	(#)	(\$)	(#) (a)	(\$)
Gregory L. Henslee	25,000	621,810	--	--
Thomas G. McFall	--	--	196	6,356
Jeff M. Shaw	70,000	2,109,500	502	16,280

- (a) Shares acquired on vesting reflects the vesting of stock awards granted under the Company's Performance Incentive Plan ("PIP") in 2005, 2006 and 2007. All shares awarded under the PIP vest in three equal installments commencing on December 31 in the year of the award and annually each December 31 thereafter.

The following table sets forth information regarding the contributions by each Executive Officer and the Company under the O'Reilly Automotive, Inc. Deferred Compensation Plan during 2007 as well as information on aggregate earnings, withdrawals and balances for each Executive Officer named in the Summary Compensation Table:

### NONQUALIFIED DEFERRED COMPENSATION

	Executive Contributions In Last Fiscal Year	Registrant Contributions In Last Fiscal Year	Aggregate Earnings In Last Fiscal Year	Aggregate Withdrawals/ Distributions	Aggregate Balance At Last Fiscal Year End
	(\$)	(\$)	(\$)	(\$)	(\$)
Name	(a)	(b)	(\$)	(\$)	(\$)
David E. O'Reilly	26,423	8,773	12,162	--	335,252
Gregory L. Henslee	33,538	10,596	6,522	--	155,527
Ted F. Wise	73,596	7,592	20,468	--	644,971
Thomas G. McFall	9,692	3,029	339	--	13,060
Jeff M. Shaw	42,270	1,713	6,872	--	211,878

- (a) All executive contribution amounts have been included in the *Salary* column of the Summary Compensation Table.
- (b) All registrant contribution amounts have been included in the *All Other Compensation* column of the Summary Compensation Table.
- (c) The terms of the O'Reilly Automotive, Inc. Deferred Compensation Plan are described in the foregoing Compensation Discussion and Analysis.

## COMPENSATION COMMITTEE REPORT

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of directors that the Compensation Discussion and Analysis be included in this Proxy statement and in O'Reilly Automotive, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007.

Respectfully submitted,

THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS OF O'REILLY AUTOMOTIVE, INC.

Jay D. Burchfield

*Chairman of the Compensation Committee*

Paul R. Lederer

*Member of the Compensation Committee*

Ronald Rashkow

*Member of the Compensation Committee*

### **Certain Relationships and Related Transactions**

The Company leases 69 store locations from one of two real estate investment partnerships and a limited liability corporation formed by the O'Reilly family. David E. O'Reilly, Lawrence P. O'Reilly, Charles H. O'Reilly, Jr. and Rosalie O'Reilly-Wooten, their spouses, children and grandchildren each hold a beneficial interest in such partnerships or the limited liability company. The Company has entered into separate master lease agreements with each of the affiliated real estate investment partnerships and the limited liability company for the store locations covered thereby. The master leases generally provide for payment of a fixed base rent, payment of certain tax, insurance and maintenance expenses and an original terms of six to fifteen years, subject to one or more renewals at the Company's option. The original term of the master lease agreements with the real estate investment partnerships expired in December 2004 and has been renewed by modifications to the master lease agreements that extend the term of the lease for each individual property under the lease. The terms of these modifications expire on dates ranging from October 31, 2008 to December 31, 2029. The term of the master lease with the limited liability company expires on either December 31, 2013 or August 31, 2016. The total aggregate rent payments paid by the Company to the partnerships and the limited liability company was \$3,446,000 in fiscal 2007. The Company believes that the terms and conditions of the transactions with affiliates described above were no less favorable to the Company than those that would have been available to the Company in comparable transactions with unaffiliated parties.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's executive officers and Directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Such individuals are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such forms furnished to us and written representations with respect to the timely filing of all reports required to be filed, we believe that such persons complied with all Section 16(a) filing requirements applicable to them with respect to transactions during fiscal 2007 with the following exceptions: Charles H. O'Reilly, Jr. redeemed certain shares of an exchange fund on December 21, 2006 that were not reported until May 24, 2007. Lawrence P. O'Reilly and David E. O'Reilly redeemed certain shares of an exchange fund on April 12, 2007 that were not reported until May 24, 2007. Rosalie O'Reilly-Wooten redeemed certain shares of an exchange fund on April 24, 2007 that were not reported until May 24, 2007. Lawrence P. O'Reilly, David E. O'Reilly, and Charles H. O'Reilly, Jr. delivered shares to settle Variable Prepaid Forward contracts on May 30, 2007 that were not reported until June 7, 2007. Rosalie O'Reilly-Wooten sold certain shares indirectly held as trustee of a revocable trust for the benefit of her child from August 20, 2007 through August 24, 2007 that were not reported until September 21, 2007.

## AUDIT COMMITTEE REPORT

The Audit Committee functions pursuant to a written charter, which may be viewed on our website at [www.oreillyauto.com](http://www.oreillyauto.com). In compliance with that charter and in connection with the December 31, 2007, financial statements, the Audit Committee:

- reviewed and discussed with management the Company's audited financial statements as of and for the year ended December 31, 2007; and
- discussed with the Company's independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of American Institute of Certified Public Accountants; and
- received and reviewed the written disclosures and the letter from the Company's independent accountants required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as amended and as adopted by the Public Accounting Oversight Board in Rule 3600T and discussed with the independent accountant the independent accountant's independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF O'REILLY AUTOMOTIVE, INC.

John Murphy

*Chairman of the Audit Committee*

Paul R. Lederer

*Member of the Audit Committee*

Ronald Rashkow

*Member of the Audit Committee*



## PROPOSAL 2 – RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has selected Ernst & Young LLP as our independent auditors for the year ending December 31, 2008, and has further directed that management submit the selection of independent auditors for ratification by the shareholders at the annual meeting. Ernst & Young LLP has audited our financial statements since 1992. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

None of our Bylaws, our other governing documents, Missouri or federal law or The Nasdaq Global Select Market Listing Qualifications require shareholder ratification of the selection of Ernst & Young LLP as our independent auditors. However, the Audit Committee is submitting the selection of Ernst & Young LLP to the shareholders for ratification as a matter of good corporate practice. If the shareholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent auditors at any time during the year if the Audit Committee determines that such a change would be in the best interests of the Company and our shareholders.

### Fees Paid to Independent Auditors

The following is a summary of fees billed by Ernst & Young LLP for audit and other professional services during the years ended December 31:

<b>Audit Fees:</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Consists of fees and expenses billed for the audit of O'Reilly's consolidated financial statements for such year, the audit of the effectiveness of internal control over financial reporting and for the review of O'Reilly's quarterly reports on Form 10-Q	\$ 932,907	\$ 843,541

### Audit-Related Fees:

Consists of fees and expenses billed for the annual audit of the Company's employee benefit plan, consultations regarding the Company's S-8 filing dated August 29, 2006 and synthetic lease renewal dated September 28, 2007	60,170	26,450
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### Tax Fees:

Consists of fees and expenses billed for tax advisory services, including compliance, planning and consultations regarding

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FIN 48 adoption and operational realignment	<u>286,853</u>	<u>144,639</u>
<b>Total Fees</b>	<b>\$ <u>1,279,930</u></b>	<b>\$ <u>1,014,630</u></b>

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services and other services performed by the independent auditor. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. The Audit Committee has delegated to the Chairman of the Audit Committee authority to approve permitted services, provided that the Chairman reports any decisions to the Committee at its next scheduled meeting.

The Audit Committee, after review and discussion with Ernst & Young LLP of the preceding information, determined that the provision of these services was compatible with maintaining Ernst & Young LLP's independence.

### **Ratification of Independent Auditors**

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of Ernst & Young LLP.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THE PROPOSAL TO RATIFY THE SELECTION OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2008.**

### **ANNUAL SHAREHOLDERS' REPORT**

The Annual Shareholders' Report of the Company for fiscal 2007 containing, among other things, audited consolidated financial statements of the Company, accompanies this Proxy Statement.

### **FUTURE PROPOSALS OF SHAREHOLDERS**

Shareholder proposals intended to be presented at the 2009 Annual Meeting and included in the Company's proxy statement and form of proxy relating to that meeting pursuant to Rule 14a-8 under the Exchange Act must be received by the Company at the Company's principal executive offices by November 19, 2008. In order for shareholder proposals made outside of Rule 14a-8 under the Exchange Act to be considered "timely" within the meaning of Rule 14a-4(c) under the Exchange Act, the Company's Amended Bylaws require that such proposals must be submitted, not later than February 8, 2009, and not earlier than January 8, 2009.

### **OTHER BUSINESS**

The Board of Directors knows of no business to be brought before the Annual Meeting other than as set forth above. If other matters properly come before the meeting, it is the intention of the persons named in the solicited proxy to vote the proxy on such matters in accordance with their judgment as to the best interests of the Company.

### **MISCELLANEOUS**

The Company will pay the cost of soliciting proxies in the accompanying form. In addition to solicitation by use of the mails, certain officers and regular employees of the Company may solicit the return of proxies by telephone, telegram or personal interview and may request brokerage houses and custodians, nominees and fiduciaries to forward soliciting material to their principals and will agree to reimburse them for their reasonable out-of-pocket expenses.

Shareholders are urged to mark, sign, date and send in their proxies without delay or vote via telephone or Internet using the instructions on the proxy card.

#### **COMMUNICATION WITH THE BOARD OF DIRECTORS**

A shareholder who wishes to communicate with our Board of Directors, specific individual directors or the independent directors as a group, may do so by directing a written request addressed to such director(s) in care of the Corporate Secretary at the Company's address appearing on the first page of this proxy statement or via e-mail through our website at [www.oreillyauto.com](http://www.oreillyauto.com). Such communication will be directed to the intended director, group of directors or the entire Board, as the case may be.

#### **HOUSEHOLDING OF MATERIALS**

In some instances, only one copy of this Proxy Statement or Annual Report is being delivered to multiple shareholders, sharing an address, unless we have received instructions from one or more of the shareholders to continue to deliver multiple copies. We will deliver promptly upon oral or written request a separate copy of the Proxy Statement or Annual Report, as applicable, to any shareholder at your address. If you wish to receive a separate copy of the Proxy Statement or Annual Report, you may call us at (417) 862-6708, or send a written request to O'Reilly Automotive, Inc., 233 South Patterson, Springfield, Missouri 65802, Attention: Secretary. Alternatively, shareholders sharing an address who now receive multiple copies of the Proxy Statement or Annual Report may request delivery of a single copy, also by calling us at the number or writing to us at the address listed above.

**ADDITIONAL INFORMATION**

Additional information regarding the Company can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed by the Company with the Securities and Exchange Commission.

A copy of the Company's Annual Report on Form 10-K for fiscal year 2007 (as filed with the Securities and Exchange Commission), including financial statements and financial statement schedules (excluding exhibits), is available to shareholders without charge, upon written request to O'Reilly Automotive, Inc., 233 South Patterson, Springfield, Missouri 65802, Attention: Secretary.

By Order of the Board of Directors,

Tricia Headley

*Secretary*

Springfield, Missouri

March 21, 2008

**O'REILLY AUTOMOTIVE, INC.**

You are cordially invited to attend the Annual Meeting of Shareholders of O'Reilly Automotive, Inc., to be held at the Clarion Hotel, 3333 South Glenstone Avenue, Springfield, Missouri on Tuesday, May 6, 2008, at 10:00 a.m. Central Time.

**2007 HIGHLIGHTS**

- **15<sup>th</sup> Consecutive Year of Record Revenues and Earnings**
  - **10.5% Increase in Sales to \$2.52 Billion**
  - **3.7% Comparable Store Product Sales**
  - **190 New Stores Opened**
  - **Net Income of \$194.0 Million**
  - **12.2% Operating Margin**
- 

**PROXY**

**O'REILLY AUTOMOTIVE, INC.**

**Annual Meeting of Shareholders – Tuesday, May 6, 2008**

**(THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS)**

The undersigned hereby appoints David E. O'Reilly, Lawrence P. O'Reilly and Charles H. O'Reilly, Jr., and each of them, as proxies, with full power of substitution, and hereby authorizes them to represent and vote as the undersigned designates, all shares of Common Stock of O'Reilly Automotive, Inc., a Missouri corporation (the "Company"), held by the undersigned on February 28, 2008, at the Annual Meeting of Shareholders (the "Annual Meeting") to be held on May 6, 2008, at 10:00 a.m. Central Time in Springfield, Missouri or at any adjournment or postponement thereof, upon the matters set forth on the reverse side of this card, all in accordance with and as more fully described in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement, receipt of which is hereby acknowledged.

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED "FOR" THE ACTIONS OR PROPOSALS.**

**O'REILLY AUTOMOTIVE, INC**  
**233 SOUTH PATTERSON AVENUE**  
**P.O. BOX 1156**  
**SPRINGFIELD, MO 65801**

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time, May 5, 2008. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER**

**COMMUNICATIONS**

If you would like to reduce the costs incurred by O'Reilly Automotive, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time, May 5, 2008. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return in the postage-paid envelope we have provided or return to O'Reilly Automotive, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

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DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**O'REILLY AUTOMOTIVE, INC.**

The Board of Directors recommends a vote **FOR** the following actions  
or proposals (as described in the accompanying Proxy Statement).



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## Election of Directors

**For All**   **Withhold All**   **For All Except**

To withhold authority to vote, mark "For All Except" and write the nominee's number on the line below.

1. Proposal to elect Class III Directors (three-year term).
  - 01) David E. O'Reilly
  - 02) Jay D. Burchfield
  - 03) Paul R. Lederer

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## Vote on Proposal

**For**   **Against**   **Abstain**

2. Ratification of appointment of Ernst & Young, LLP as independent auditors.

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Annual Meeting.

Please sign exactly as name(s) appear hereon. When shares are held by joint tenants, both should sign. When as an attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

\_\_\_\_\_

Signature      Date      Signature (Joint Owners)      Date