

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 26, 2010

or

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

For the transition period from _____ to _____

Commission file number 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-2634797
(I.R.S. Employer
Identification No.)

4650 Cushing Parkway Fremont, California
(Address of principal executive offices)

94538
(Zip Code)

(510) 572-0200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of January 28, 2011, there were 123,549,931 shares of registrant's common stock outstanding.

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LAM RESEARCH CORPORATION

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PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****LAM RESEARCH CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)**

	December 26, 2010 (unaudited)	June 27, 2010 (1)
ASSETS		
Cash and cash equivalents	\$ 729,060	\$ 545,767
Short-term investments	303,038	280,690
Accounts receivable, less allowance for doubtful accounts of \$7,325 as of December 26, 2010 and \$10,609 as of June 27, 2010	689,400	499,890
Inventories	333,874	318,479
Deferred income taxes	47,380	46,158
Prepaid expenses and other current assets	76,993	65,677
Total current assets	2,179,745	1,756,661
Property and equipment, net	229,769	200,336
Restricted cash and investments	165,244	165,234
Deferred income taxes	28,030	26,218
Goodwill	169,182	169,182
Intangible assets, net	56,489	67,724
Other assets	104,758	102,037
Total assets	<u>\$ 2,933,217</u>	<u>\$ 2,487,392</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 168,753	\$ 121,099
Accrued expenses and other current liabilities	381,915	309,397
Deferred profit	135,090	123,194
Current portion of long-term debt and capital leases	4,113	4,967
Total current liabilities	689,871	558,657
Long-term debt and capital leases	16,524	17,645
Income taxes payable	118,323	110,462
Other long-term liabilities	23,720	32,493
Total liabilities	848,438	719,257
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, at par value of \$0.001 per share; authorized - 5,000 shares; none outstanding	—	—
Common stock, at par value of \$0.001 per share; authorized - 400,000 shares; issued and outstanding - 123,254 shares as of December 26, 2010 and 125,946 shares as of June 27, 2010	123	126
Additional paid-in capital	1,438,008	1,452,939
Treasury stock, at cost; 40,150 shares as of December 26, 2010 and 36,884 shares as of June 27, 2010	(1,710,600)	(1,581,417)
Accumulated other comprehensive loss	(24,668)	(69,849)
Retained earnings	2,381,916	1,966,336
Total stockholders' equity	2,084,779	1,768,135
Total liabilities and stockholders' equity	<u>\$ 2,933,217</u>	<u>\$ 2,487,392</u>

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
Revenue	\$ 870,714	\$ 487,176	\$ 1,676,588	\$ 805,724
Cost of goods sold	463,281	268,685	891,829	455,918
Cost of goods sold - 409A expense	—	(2,696)	—	(5,816)
Total costs of goods sold	463,281	265,989	891,829	450,102
Gross margin	407,433	221,187	784,759	355,622
Research and development	90,477	82,171	176,830	153,370
Selling, general and administrative	75,852	60,111	147,994	112,230
Restructuring and asset impairments	—	5,919	(5,163)	8,012
409A expense	—	(18,362)	—	(38,590)
Total operating expenses	166,329	129,839	319,661	235,022
Operating income	241,104	91,348	465,098	120,600
Other income (expense), net	1,038	(58)	59	(426)
Income before income taxes	242,142	91,290	465,157	120,174
Income tax expense	20,286	21,716	49,577	33,803
Net income	<u>\$ 221,856</u>	<u>\$ 69,574</u>	<u>\$ 415,580</u>	<u>\$ 86,371</u>
Net income per share:				
Basic net income per share	<u>\$ 1.80</u>	<u>\$ 0.55</u>	<u>\$ 3.37</u>	<u>\$ 0.68</u>
Diluted net income per share	<u>\$ 1.78</u>	<u>\$ 0.54</u>	<u>\$ 3.32</u>	<u>\$ 0.67</u>
Number of shares used in per share calculations:				
Basic	<u>123,101</u>	<u>127,296</u>	<u>123,384</u>	<u>127,035</u>
Diluted	<u>124,786</u>	<u>128,829</u>	<u>124,999</u>	<u>128,389</u>

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended	
	December 26, 2010	December 27, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 415,580	\$ 86,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,611	35,865
Deferred income taxes	(3,822)	21,711
Restructuring charges	(5,163)	8,012
Equity-based compensation expense	25,768	27,217
Income tax benefit on equity-based compensation plans	4,165	214
Excess tax benefit on equity-based compensation plans	(3,228)	(603)
Other, net	(3,564)	1,332
Changes in operating assets and liabilities	(25,020)	(104,105)
Net cash provided by operating activities	<u>441,327</u>	<u>76,014</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(57,155)	(12,725)
Purchases of available-for-sale securities	(80,916)	(46,410)
Sales and maturities of available-for-sale securities	55,250	35,619
Purchase of other investments	—	(961)
Proceeds from sale of assets	1,544	—
Transfer of restricted cash and investments	(10)	(6,474)
Net cash used for investing activities	<u>(81,287)</u>	<u>(30,951)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(3,411)	(2,604)
Net proceeds from issuance of long-term debt	—	336
Excess tax benefit on equity-based compensation plans	3,228	603
Cash paid in advance for stock repurchase contracts	(50,000)	—
Treasury stock purchases	(148,946)	(2,932)
Reissuances of treasury stock	7,155	5,761
Proceeds from issuance of common stock	4,242	6,382
Net cash provided by (used for) financing activities	<u>(187,732)</u>	<u>7,546</u>
Effect of exchange rate changes on cash	10,985	3,390
Net increase in cash and cash equivalents	183,293	55,999
Cash and cash equivalents at beginning of period	545,767	374,167
Cash and cash equivalents at end of period	<u>\$ 729,060</u>	<u>\$ 430,166</u>

See Notes to Condensed Consolidated Financial Statements

LAM RESEARCH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 26, 2010
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of Lam Research Corporation (“Lam Research” or the “Company”) for the fiscal year ended June 27, 2010, which are included in the Annual Report on Form 10-K as of and for the year ended June 27, 2010 (the “2010 Form 10-K”). The Company’s Forms 10-K, Forms 10-Q and Forms 8-K are available online at the Securities and Exchange Commission website on the Internet. The address of that site is www.sec.gov. The Company also posts its Forms 10-K, Forms 10-Q and Forms 8-K on its corporate website at <http://investor.lamresearch.com>.

The Company’s reporting period is a 52/53-week fiscal year. The Company’s current fiscal year will end June 26, 2011 and includes 52 weeks. The quarters ended December 26, 2010 (the “December 2010 quarter”) and December 27, 2009 (the “December 2009 quarter”) each included 13 weeks.

Certain amounts presented in the comparative financial statements for the prior year have been reclassified to conform to the fiscal year 2011 presentation.

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

In September 2009, the Financial Accounting Standards Board (“FASB”) ratified guidance from the Emerging Issues Task Force (“EITF”) regarding revenue arrangements with multiple deliverables. This guidance addresses criteria for separating the consideration in multiple-element arrangements and requires companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price. The Company adopted this guidance on June 28, 2010, on a prospective basis, and the adoption did not have a significant impact on its results of operations or financial condition.

In September 2009, the FASB also ratified guidance from the EITF regarding certain revenue arrangements that include software elements. This guidance modifies the scope of the software revenue recognition rules to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product’s essential functionality. The Company adopted this guidance on June 28, 2010, on a prospective basis, and the adoption did not have a significant impact on its results of operations or financial condition.

NOTE 3 — EQUITY-BASED COMPENSATION PLANS

The Company has stock plans that provide for grants of equity-based awards to eligible participants, including stock options and restricted stock units (“RSU”), of Lam Research common stock (“Common Stock”). An option is a right to purchase the Company’s stock at a set price. An RSU award is an agreement to issue shares of the Company’s stock at the time of vesting. The Company’s options and RSU awards typically vest over a period of two years or less. The Company also has an employee stock purchase plan (“ESPP”) that allows employees to purchase its Common Stock at a discount through payroll deductions.

The Company recognized the following equity-based compensation expense and related income tax benefit in the Consolidated Statements of Operations:

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in millions)			
Equity-based compensation expense	\$ 12.8	\$ 13.3	\$ 25.8	\$ 27.2
Income tax benefit related to equity-based compensation expense	\$ 2.2	\$ 2.8	\$ 4.3	\$ 4.3

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

Stock Options and RSUs

The 2007 Stock Incentive Plan provides for grants of equity-based awards to eligible participants. Additional shares are reserved for issuance under the Company’s 1997 Stock Incentive Plan and its 1999 Stock Option Plan pursuant to awards previously granted under those

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plans (together with the 2007 Stock Incentive Plan, the “Plans”). As of December 26, 2010, there were a total of 3,188,872 shares reserved to cover options and RSUs issued and outstanding under the Plans. As of December 26, 2010, there were an additional 9,391,981 shares reserved and available for future equity-based awards under the 2007 Stock Incentive Plan.

A summary of stock option activity under the Plans as of December 26, 2010 and changes during the six months then ended is presented below:

Options	Shares (in thousands)	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value as of December 26, 2010 (in thousands)
Outstanding at June 27, 2010	885	\$ 21.61	2.76	
Exercised	(200)	\$ 21.28		
Forfeited or expired	(3)	\$ 20.35		
Outstanding at December 26, 2010	<u>682</u>	\$ 21.72	2.80	\$ 20,743
Exercisable at December 26, 2010	<u>206</u>	\$ 25.19	1.95	\$ 5,555

The total intrinsic value of options exercised during the three and six months ended December 26, 2010 was \$4.0 million and \$4.8 million, respectively. The total intrinsic value of options exercised during the three and six months ended December 27, 2009 was \$3.9 million and \$6.1 million, respectively.

As of December 26, 2010, there was approximately \$0.3 million of total unrecognized compensation expense related to unvested stock options granted and outstanding; that expense is expected to be recognized over a remaining period of 0.2 years.

A summary of the Company’s RSUs as of December 26, 2010 and changes during the six months then ended is presented below:

Unvested Restricted Stock Units	Shares (in thousands)	Average Grant- Date Fair Value
Unvested at June 27, 2010	2,741	\$ 30.50
Granted	169	\$ 44.49
Vested	(365)	\$ 28.41
Forfeited	(39)	\$ 31.53
Unvested as of December 26, 2010	<u>2,506</u>	\$ 31.70

The fair value of the Company’s RSUs was calculated based upon the fair market value of the Company’s stock at the date of grant. As of December 26, 2010, there was \$45.7 million of total unrecognized compensation expense related to unvested RSUs granted; that expense is expected to be recognized over a weighted average remaining period of 1.3 years.

ESPP

The 1999 Employee Stock Purchase Plan (as amended and restated, the “1999 ESPP”) allows employees to designate a portion of their base compensation to be withheld through payroll deductions and used to purchase the Company’s Common Stock at a purchase price per share equal to the lower of 85% of the fair market value of the Company’s Common Stock on the first or last day of the applicable purchase period. Each offering period generally lasts up to 12 months and includes up to three interim purchase dates. As of December 26, 2010, there were a total of 8,265,932 shares available for issuance under the 1999 ESPP.

Purchase rights under the 1999 ESPP were valued using the Black-Scholes model assuming no expected dividends and the following weighted-average assumptions for the three and six months ended December 26, 2010:

Expected term (years)	0.68
Expected stock price volatility	41.94%
Risk-free interest rate	0.61%

As of December 26, 2010, there was \$3.7 million of unrecognized compensation expense related to the 1999 ESPP, which is expected to be recognized over the next 0.7 years.

NOTE 4 — FINANCIAL INSTRUMENTS

The Company maintains an investment portfolio of various holdings, types, and maturities. The Company’s mutual funds, which are correlated to the Company’s obligations under the deferred compensation plan, are classified as trading securities. Investments classified as trading securities are recorded at fair value based upon quoted market prices. Any material differences between the cost and fair value of trading securities is recognized as “Other income (expense)” in the Consolidated Statements of Operations. All of the Company’s other short-term investments are classified as available-for-sale and consequently are recorded in the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax.

Fair Value

Pursuant to the accounting guidance for fair value measurement, the Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

FASB has established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The level of an asset or liability in the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities with sufficient volume and frequency of transactions.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or model-derived valuations techniques for which all significant inputs are observable in the market or can be corroborated by, observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities and based on non-binding, broker-provided price quotes and may not have been corroborated by observable market data.

The following table sets forth the Company’s financial assets and liabilities measured at fair value on a recurring basis as of December 26, 2010:

	<u>Total</u>	<u>Fair Value Measurement at December 26, 2010</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
		(In thousands)		
Assets				
Fixed Income				
Money Market Funds	\$ 640,843	\$ 640,843	\$ —	\$ —
Municipal Notes and Bonds	102,940	—	102,940	—
US Treasury & Agencies	3,503	3,503	—	—
Government-Sponsored Enterprises	6,468	—	6,468	—
Foreign Government Bonds	1,003	—	1,003	—
Corporate Notes and Bonds	314,528	168,936	145,592	—
Mortgage Backed Securities - Residential	4,501	—	4,501	—
Mortgage Backed Securities - Commercial	39,031	—	39,031	—
Total Fixed Income	\$1,112,817	\$ 813,282	\$ 299,535	\$ —
Equities	6,946	6,946	—	—
Mutual Funds	20,465	20,465	—	—
Derivatives Assets	1,812	—	1,812	—
Total	\$1,142,040	\$ 840,693	\$ 301,347	\$ —
Liabilities				
Derivative liabilities	\$ 4,146	\$ —	\$ 4,146	\$ —

The amounts in the table above are reported in the Consolidated Balance Sheet as of December 26, 2010 as follows:

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<u>Reported As:</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
	(In thousands)			
Cash Equivalents	\$ 644,894	\$644,894	\$ —	\$ —
Short-Term Investments	303,038	3,503	299,535	—
Restricted Cash and Investments	164,885	164,885	—	—
Prepaid Expenses and Other Current Assets	27,411	27,411	—	—
Other Assets	1,812	—	1,812	—
Total	\$1,142,040	\$840,693	\$301,347	\$ —
Accrued expenses and other current liabilities	\$ 4,146	\$ —	\$ 4,146	\$ —

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 27, 2010.

	<u>Total</u>	Fair Value Measurement at June 27, 2010		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
		(In thousands)		
Assets				
Fixed Income				
Money Market Funds	\$470,936	\$ 470,936	\$ —	\$ —
Municipal Notes and Bonds	103,903	—	103,903	—
US Treasury & Agencies	3,447	—	3,447	—
Government-Sponsored Enterprises	6,060	6,060	—	—
Foreign Government Bond	1,008	—	1,008	—
Corporate Notes and Bonds	289,437	169,723	119,636	78
Mortgage Backed Securities - Residential	6,106	—	6,106	—
Mortgage Backed Securities - Commercial	42,964	—	42,964	—
Total Fixed Income	\$923,861	\$ 646,719	\$ 277,064	\$ 78
Equities	7,636	7,636	—	—
Mutual Funds	18,124	18,124	—	—
Derivatives Assets	2,063	—	2,063	—
Total	\$951,684	\$ 672,479	\$ 279,127	\$ 78
Liabilities				
Derivative Liabilities	\$ 470	\$ —	\$ 470	\$ —

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The amounts in the table above are reported in the Consolidated Balance Sheet as of June 27, 2010 as follows:

<u>Reported As:</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
	(In thousands)			
Cash Equivalents	\$478,286	\$477,279	\$ 1,007	\$ —
Short-Term Investments	280,690	4,555	276,057	78
Restricted Cash and Investments	164,885	164,885	—	—
Prepaid Expenses and Other Current Assets	2,063	—	2,063	—
Other Assets	25,760	25,760	—	—
Total	\$951,684	\$672,479	\$279,127	\$ 78
Accrued Expenses and Other Current Liabilities	\$ 470	\$ —	\$ 470	\$ —

Investments

The following tables summarize the Company's investments (in thousands):

	<u>December 26, 2010</u>				<u>June 27, 2010</u>			
	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>
Cash	\$ 84,525	\$ —	\$ —	\$ 84,525	\$ 67,830	\$ —	\$ —	\$ 67,830
Fixed Income Money Market Funds	640,843	—	—	640,843	470,936	—	—	470,936
Municipal Notes and Bonds	101,913	1,205	(178)	102,940	102,130	1,784	(11)	103,903
US Treasury & Agencies	3,519	1	(17)	3,503	3,437	10	—	3,447
Government-Sponsored Enterprises	6,478	2	(12)	6,468	5,976	84	—	6,060
Foreign Government Bonds	1,005	—	(2)	1,003	1,007	1	—	1,008
Corporate Notes and Bonds	313,246	1,470	(188)	314,528	287,922	1,608	(93)	289,437
Mortgage Backed Securities - Residential	4,284	236	(19)	4,501	5,825	323	(42)	6,106
Mortgage Backed Securities - Commercial	38,932	244	(145)	39,031	42,765	275	(76)	42,964
Total Cash and Short -Term Investments	\$1,194,745	\$ 3,158	\$ (561)	\$1,197,342	\$ 987,828	\$ 4,085	\$ (222)	\$ 991,691
Publicly traded equity securities	\$ 9,320	\$ —	\$ (2,374)	\$ 6,946	\$ 9,471	\$ —	\$ (1,835)	\$ 7,636
Mutual Funds	19,664	810	(9)	20,465	19,043	—	(919)	18,124
Total Financial Instruments	\$1,223,729	\$ 3,968	\$ (2,944)	\$1,224,753	\$1,016,342	\$ 4,085	\$ (2,976)	\$1,017,451
As Reported								
Cash and Cash Equivalents	\$ 729,060	\$ —	\$ —	\$ 729,060	\$ 545,766	\$ 1	\$ —	\$ 545,767
Short-Term Investments	300,441	3,158	(561)	303,038	276,828	4,084	(222)	280,690
Restricted cash and investments	165,244	—	—	165,244	165,234	—	—	165,234
Other Assets	28,984	810	(2,383)	27,411	28,514	—	(2,754)	25,760
Total	\$1,223,729	\$ 3,968	\$ (2,944)	\$1,224,753	\$1,016,342	\$ 4,085	\$ (2,976)	\$1,017,451

The Company accounts for its investment portfolio at fair value. Realized gains (losses) for investments sold are specifically identified. Management assesses the fair value of investments in debt securities that are not actively traded through consideration of interest rates and their impact on the present value of the cash flows to be received from the investments. The Company also considers whether changes in the credit ratings of the issuer could impact the assessment of fair value. The Company did not recognize any realized losses on investments due to other-than-temporary impairment charges or due to sales of investments during the three and six months ended December 26, 2010 and December 27, 2009.

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The following is an analysis of the Company's fixed income securities in unrealized loss positions as of December 26, 2010 (in thousands):

	December 26, 2010					
	Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Fixed Income Securities						
Municipal Notes and Bonds	\$25,653	\$ (178)	\$ —	\$ —	\$25,653	\$ (178)
US Treasury & Agencies	3,450	(17)	—	—	3,450	(17)
Government-Sponsored Enterprises	4,456	(12)	—	—	4,456	(12)
Foreign Government Bonds	1,003	(2)	—	—	1,003	(2)
Corporate Notes and Bonds	28,151	(188)	—	—	28,151	(188)
Mortgage Backed Securities - Residential	—	—	350	(19)	350	(19)
Mortgage Backed Securities - Commercial	14,311	(145)	—	—	14,311	(145)
Total Fixed Income	\$77,024	\$ (542)	\$ 350	\$ (19)	\$77,374	\$ (561)

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

	December 26, 2010		June 27, 2010	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
	(in thousands)			
Due in less than one year	\$ 908,085	\$ 908,684	\$723,143	\$723,707
Due in more than one year	202,135	204,133	196,855	200,154
	<u>\$1,110,220</u>	<u>\$1,112,817</u>	<u>\$919,998</u>	<u>\$923,861</u>

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

Derivative Instruments and Hedging

The Company carries derivative financial instruments ("derivatives") on its Consolidated Balance Sheets at their fair values. The Company enters into foreign exchange forward contracts with financial institutions with the primary objective of reducing volatility of earnings and cash flows related to foreign currency exchange rate fluctuations. The counterparties to these foreign exchange forward contracts are creditworthy multinational financial institutions; therefore, we do not consider the risk of counterparty nonperformance to be material.

Cash Flow Hedges

The Company's policy is to attempt to minimize short-term business exposure to foreign currency exchange rate fluctuations using an effective and efficient method to eliminate or reduce such exposures. In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. To protect against a reduction in value of forecasted Japanese yen-denominated revenues and forecasted Euro denominated expenses, the Company has instituted a foreign currency cash flow hedging program. The Company enters into foreign exchange forward contracts that generally expire within 12 months and no later than 24 months. These foreign exchange forward contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in revenue in the same period the hedged revenue is recognized.

At inception and at each quarter end, hedges are tested for effectiveness using regression testing. Changes in the fair value of foreign exchange forward contracts due to changes in time value are excluded from the assessment of effectiveness and are recognized in revenue and operating expenses in the current period. The change in forward time value was not material for all reported periods. There were no gains or

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losses during either the three or six months ended December 26, 2010 or December 27, 2009 associated with ineffectiveness or forecasted transactions that failed to occur. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to the derivative instrument and the hedged item. These criteria include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows will be measured.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. When derivative instruments are designated and qualify as effective cash flow hedges, the Company is able to defer effective changes in the fair value of the hedging instrument within accumulated other comprehensive income (loss) until the hedged exposure is realized. Consequently, with the exception of excluded time value and hedge ineffectiveness recognized, the Company's results of operations are not subject to fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that the underlying hedged forecasted transactions will occur, the Company may not be able to account for its derivative instruments as cash flow hedges. If this were to occur, future changes in the fair values of the Company's derivative instruments would be recognized in earnings without the benefits of offsets or deferrals of changes in fair value arising from hedge accounting treatment. At December 26, 2010, the Company expects to reclassify the entire amount associated with the \$1.0 million of gains accumulated in other comprehensive income (loss) to earnings during the next 12 months due to the recognition in earnings of the hedged forecasted transactions.

Balance Sheet Hedges

The Company also enters into foreign exchange forward contracts to hedge the effects of foreign currency fluctuations associated with foreign currency denominated assets and liabilities, primarily intercompany receivables and payables. These foreign exchange 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, recorded in other income (expense).

As of December 26, 2010, the Company had the following outstanding foreign currency forward contracts that were entered into to hedge forecasted revenues and purchases:

	<u>Derivatives Designated as</u> <u>Hedging Instruments:</u>	<u>Derivatives Not Designated as</u> <u>Hedging Instruments:</u>
	<u>(in thousands)</u>	
Foreign Currency Forward Contracts		
Sell JPY	\$ 97,399	\$ —
Sell JPY	—	41,553
Buy CHF	—	222,536
Buy TWD	—	87,155
Buy EUR	36,732	—
Buy EUR	—	50,939
	<u>\$ 134,131</u>	<u>\$ 402,183</u>

The fair value of derivatives instruments in the Company's condensed Consolidated Balance Sheets as of December 26, 2010 was as follows:

	Fair Value of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	<u>Balance Sheet</u> <u>Location</u>	<u>Fair</u> <u>Value</u>	<u>Balance Sheet</u> <u>Location</u>	<u>Fair</u> <u>Value</u>
	<u>(in thousands)</u>			
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expense and other assets	\$ 1,810	Accrued liabilities	\$ (726)
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expense and other assets	\$ 2	Accrued liabilities	\$ (3,420)
Total derivatives		<u>\$ 1,812</u>		<u>\$ (4,146)</u>

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The fair value of derivatives instruments in the Company's condensed Consolidated Balance Sheets as of June 27, 2010 was as follows:

	Fair Value of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(in thousands)			
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expense and other assets	\$ 30	Accrued liabilities	(\$52)
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expense and other assets	\$ 2,033	Accrued liabilities	(\$418)
Total derivatives		\$ 2,063		(\$470)

The effect of derivative instruments designated as cash flow hedges on the Company's Condensed Consolidated Statements of Operations for the three and six months ended December 26, 2010 and December 27, 2009 were as follows:

	Three Months Ended December 26, 2010				Six Months Ended December 26, 2010			
	Gain (Loss) Recognized (Effective Portion) (1)	Gain (Loss) Recognized (Effective Portion) (2)	Gain (Loss) Recognized (Ineffective Portion) (3)	Gain (Loss) Recognized (Excluded from Effectiveness Testing) (4)	Gain (Loss) Recognized (Effective Portion) (1)	Gain (Loss) Recognized (Effective Portion) (2)	Gain (Loss) Recognized (Ineffective Portion) (3)	Gain (Loss) Recognized (Excluded from Effectiveness Testing) (4)
Derivatives Designated as Hedging Instruments:								
Foreign exchange forward contracts	\$ 317	\$ (2,192)	\$ —	\$ 73	\$ (4,777)	\$ (5,802)	\$ —	\$ 187
	(in thousands)							
	Three Months Ended December 27, 2009				Six Months Ended December 27, 2009			
	Gain (Loss) Recognized (Effective Portion) (1)	Gain (Loss) Recognized (Effective Portion) (2)	Gain (Loss) Recognized (Ineffective Portion) (3)	Gain (Loss) Recognized (Excluded from Effectiveness Testing) (4)	Gain (Loss) Recognized (Effective Portion) (1)	Gain (Loss) Recognized (Effective Portion) (2)	Gain (Loss) Recognized (Ineffective Portion) (3)	Gain (Loss) Recognized (Excluded from Effectiveness Testing) (4)
Derivatives Designated as Hedging Instruments:								
Foreign exchange forward contracts	\$ 147	\$ (655)	\$ —	\$ 19	\$ (560)	\$ (650)	\$ —	\$ 55
	(in thousands)							

- (1) Amount recognized in other comprehensive income (effective portion).
- (2) Amount of gain (loss) reclassified from accumulated other comprehensive income into income (effective portion) located in revenue and operating expenses.
- (3) Amount of gain (loss) recognized in income on derivative (ineffective portion) located in other income (expense), net.
- (4) Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing) located in other income (expense), net.

The effect of derivative instruments not designated as cash flow hedges on the Company's Condensed Consolidated Statement of Operations for the three and six months ended December 26, 2010 and December 27, 2009 were as follows:

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
Derivatives Not Designated as Hedging Instruments:	Gain (Loss) Recognized (5)			
	(in thousands)			
Foreign exchange forward contracts	\$ 5,798	\$ (3,005)	\$ 14,177	\$ 4,248

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(5) Amount of gain (loss) recognized in income located in other income (expense), net.

Concentrations of Credit Risk

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

The Company's available-for-sale securities, which are invested in taxable financial instruments, must have a minimum rating of A2 / A at the time of original purchase, as rated by two of the following three rating agencies: Moody's, Standard & Poor's (S&P), or Fitch. Available-for-sale securities that are invested in tax-exempt financial instruments must have a minimum rating of A2 / A at the time of investment, as rated by any one of the same three rating agencies. The Company's policy limits the amount of credit exposure with any one financial institution or commercial issuer.

The Company is exposed to credit losses in the event of nonperformance by counterparties on the foreign currency forward contracts that are used to mitigate the effect of exchange rate changes. These counterparties are large international financial institutions and to date, no such counterparty has failed to meet its financial obligations to the Company.

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

NOTE 5 — INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipments to Japanese customers, to whom title does not transfer until customer acceptance, are classified as inventory and carried at cost until title transfers. Inventories consist of the following:

	December 26, 2010	June 27, 2010
	(in thousands)	
Raw materials	\$ 175,447	\$ 159,574
Work-in-process	59,971	67,114
Finished goods	98,456	91,791
	<u>\$ 333,874</u>	<u>\$ 318,479</u>

NOTE 6 — PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following:

	December 26, 2010	June 27, 2010
	(in thousands)	
Manufacturing, engineering and office equipment	\$ 298,036	\$ 253,925
Computer equipment and software	87,704	77,249
Land	14,757	15,574
Buildings	60,831	61,145
Leasehold improvements	51,854	55,300
Furniture and fixtures	14,375	14,095
	<u>527,557</u>	<u>477,288</u>
Less: accumulated depreciation and amortization	<u>(297,788)</u>	<u>(276,952)</u>
	<u>\$ 229,769</u>	<u>\$ 200,336</u>

NOTE 7 — GOODWILL AND INTANGIBLE ASSETS

Goodwill

The balance of goodwill was \$169.2 million as of December 26, 2010 and June 27, 2010. Goodwill attributable to the SEZ acquisition of approximately \$104 million is not tax deductible due to applicable foreign law. The remaining goodwill balance of approximately \$65 million is tax deductible.

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Intangible Assets

The following table provides details of the Company's intangible assets subject to amortization as of December 26, 2010 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Weighted- Average Useful Life (years)
Customer relationships	\$ 35,226	\$ (20,990)	\$14,236	6.90
Existing technology	61,941	(31,228)	30,713	6.68
Other intangible assets	35,216	(31,591)	3,625	4.10
Patents	20,670	(12,755)	7,915	6.11
	<u>\$153,053</u>	<u>\$ (96,564)</u>	<u>\$56,489</u>	6.06

The following table provides details of the Company's intangible assets subject to amortization as of June 27, 2010 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Weighted- Average Useful Life (years)
Customer relationships	\$ 35,226	\$ (18,512)	\$16,714	6.90
Existing technology	61,598	(27,084)	34,514	6.70
Other intangible assets	35,216	(27,783)	7,433	4.10
Patents	20,270	(11,207)	9,063	6.13
	<u>\$152,310</u>	<u>\$ (84,586)</u>	<u>\$67,724</u>	6.07

The Company recognized \$6.0 million and \$5.9 million in intangible asset amortization expense during the three months ended December 26, 2010 and December 27, 2009, respectively. The Company recognized \$12.0 million and \$11.8 million in intangible asset amortization expense during the six months ended December 26, 2010 and December 27, 2009, respectively.

The estimated future amortization expense of purchased intangible assets as of December 26, 2010 is as follows (in thousands):

Fiscal Year	Amount
2011 (6 months)	\$ 9,067
2012	17,997
2013	16,350
2014	10,377
2015	2,154
Thereafter	544
	<u>\$56,489</u>

NOTE 8 — ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 26, 2010	June 27, 2010
(in thousands)		
Accrued compensation	\$ 214,796	\$164,579
Warranty reserves	42,520	31,756
Income and other taxes payable	57,289	54,874
Other	67,310	58,188
	<u>\$ 381,915</u>	<u>\$309,397</u>

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NOTE 9 — OTHER INCOME (EXPENSE), NET

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

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands)			
Interest income	\$ 4,548	\$ 2,008	\$ 7,624	\$ 4,056
Interest expense	(110)	(245)	(211)	(434)
Foreign exchange gains (losses)	(3,108)	(195)	(6,287)	(1,989)
Other, net	(292)	(1,626)	(1,067)	(2,059)
	<u>\$ 1,038</u>	<u>\$ (58)</u>	<u>\$ 59</u>	<u>\$ (426)</u>

NOTE 10 — INCOME TAX EXPENSE

The Company's effective tax rate for the three and six months ended December 26, 2010 was approximately 8.4% and 10.7%, respectively.

The differences between the U.S. federal statutory tax rate of 35% and the Company's effective tax rate for the three and six months ended December 26, 2010 were primarily due to the geographic mix of income and research and development tax credits partially offset by the tax effect of non-deductible stock-based compensation. The effective tax rates recorded during the three and six months ended December 26, 2010 included the tax impact of discrete items, which were recorded during the quarter in which they occurred. During three and six months ended December 26, 2010, discrete items primarily consisted of: (1) a tax expense of \$1.0 million and \$2.0 million, respectively, of interest related to uncertain tax positions, (2) a tax benefit of \$4.8 million in both periods related to the retroactive extension of the U.S. federal research and development credit for part of fiscal year 2010, (3) a tax benefit of \$3.0 million and \$3.2 million, respectively, due to the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to finalization of certain foreign uncertain tax positions, and (4) a tax expense of zero and \$2.1 million, respectively, related to the reversal of accrued restructuring expenses.

The total gross unrecognized tax benefits as of each date noted below were as follows:

	December 26, 2010	June 27, 2010
	(in millions)	
Total gross unrecognized tax benefits	\$ 202.9	190.5

If the gross unrecognized tax benefits as of December 26, 2010 were recognized in a future period, it would result in a net tax benefit of \$170.2 million and a reduction of the effective tax rate. The Company does not anticipate that the total unrecognized tax benefits will significantly change due to the expiration of statutes of limitations in the next 12 months.

The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense. As of December 26, 2010, the Company had accrued approximately \$19.2 million for the payment of gross interest and penalties, relating to unrecognized tax benefits, compared to \$18.5 million as of June 27, 2010.

The Company files U.S. federal, U.S. state, and foreign income tax returns. As of December 26, 2010, tax years 2001-2010 remain subject to examination in certain jurisdictions where the Company operates.

The Internal Revenue Service ("IRS") is examining the Company's U.S. income tax return for fiscal year 2007. The California Franchise Tax Board ("FTB") is examining the Company's tax returns for fiscal years 2005 and 2006. As of December 26, 2010, no significant adjustments have been proposed by the IRS or FTB. The Company is unable to make a reasonable estimate as to when cash settlements, if any, with the relevant taxing authorities will occur.

The Company believes it has made adequate tax payments and accrued adequate amounts such that the outcome of these audits will have no material adverse effects on its results of operations or financial condition. It is reasonably possible that certain examinations may be concluded in the next twelve months. Until these examinations are effectively settled, the Company cannot estimate if there will be a material change to the total unrecognized tax benefits within the next twelve months.

Realization of the Company's net deferred tax assets is based upon the weight of available evidence, including such factors as the recent earnings history and expected future taxable income. The Company believes it is more likely than not that such assets will be realized, with the

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exception of \$37.0 million related to certain California and foreign deferred tax assets. However, realization of the assets could be negatively impacted by market conditions and other variables not known or anticipated at this time. If the valuation allowance related to deferred tax assets were released as of December 26, 2010, approximately \$37.0 million would be credited to the Consolidated Statement of Operations.

NOTE 11 — NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the treasury stock method, for dilutive stock options and RSUs. The following table reconciles the numerators and denominators of the basic and diluted computations for net income per share.

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands, except per share data)			
Numerator:				
Net income	\$ 221,856	\$ 69,574	\$ 415,580	\$ 86,371
Denominator:				
Basic average shares outstanding	123,101	127,296	123,384	127,035
Effect of potential dilutive securities:				
Employee stock plans	1,685	1,533	1,615	1,354
Diluted average shares outstanding	124,786	128,829	124,999	128,389
Net income per share - basic	\$ 1.80	\$ 0.55	\$ 3.37	\$ 0.68
Net income per share - diluted	\$ 1.78	\$ 0.54	\$ 3.32	\$ 0.67

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

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands)			
Number of potential dilutive securities excluded	54	91	76	118

NOTE 12 — COMPREHENSIVE INCOME

The components of comprehensive income, on an after-tax basis where applicable, are as follows:

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands)			
Net income	\$ 221,856	\$ 69,574	\$ 415,580	\$ 86,371
Foreign currency translation adjustment	13,422	(5,951)	44,095	7,848
Unrealized gain on fair value of derivative financial instruments, net	4,700	1,461	6,861	746
Unrealized gain (loss) on financial instruments, net	(485)	(309)	(562)	971
Reclassification adjustment for gain included in earnings	(2,596)	(796)	(6,365)	(868)
Postretirement benefit plan adjustment	157	(66)	1,152	(15)
Comprehensive income	\$ 237,054	\$ 63,913	\$ 460,761	\$ 95,053

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The balance of accumulated other comprehensive loss, on an after-tax basis where applicable, is as follows:

	December 26, 2010	June 27, 2010
	(in thousands)	
Accumulated foreign currency translation adjustment	\$ (21,748)	\$(65,843)
Accumulated unrealized gain (loss) on derivative financial instruments	1,023	(1)
Accumulated unrealized gain on financial instruments	135	1,225
Postretirement benefit plan adjustment	(4,078)	(5,230)
Accumulated other comprehensive loss	<u>\$ (24,668)</u>	<u>\$(69,849)</u>

NOTE 13 — LONG-TERM DEBT AND GUARANTEES

The Company's contractual cash obligations relating to its existing capital leases and debt as of December 26, 2010 were as follows:

	Capital Leases	Long-term Debt	Total
	(in thousands)		
Payments due by period:			
One year	\$ 1,776	\$ 2,640	\$ 4,416
Two years	1,778	1,370	3,148
Three years	1,597	—	1,597
Four years	2,083	—	2,083
Five years	856	—	856
Over 5 years	9,785	—	9,785
Total	<u>17,875</u>	<u>4,010</u>	<u>21,885</u>
Interest on capital leases	<u>1,248</u>	<u>—</u>	<u>1,248</u>
Total less interest on capital leases	16,627	4,010	20,637
Current portion of long-term debt and capital leases	<u>1,473</u>	<u>2,640</u>	<u>4,113</u>
Long-term debt and capital leases	<u>\$15,154</u>	<u>\$ 1,370</u>	<u>\$16,524</u>

Capital Leases

Capital leases reflect building and office equipment lease obligations. The amounts in the table above include the interest portion of payment obligations.

Long-Term Debt

The Company's total long-term debt as of December 26, 2010 consisted of various bank loans and government subsidized technology loans supporting operating needs.

Operating Leases and Related Guarantees

The Company leases most of its administrative, R&D and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases, which expire at various dates through fiscal year 2016. Certain of the Company's facility leases for buildings located at its Fremont, California headquarters and certain other facility leases provide the Company with options to extend the leases for additional periods or to purchase the facilities. Certain of the Company's facility leases provide for periodic rent increases based on the general rate of inflation.

On December 18, 2007, the Company entered into two operating leases regarding certain improved properties in Livermore, California. These leases were amended on April 3, 2008 and July 9, 2008 (as so amended, the "Livermore Leases"). On December 21, 2007, the Company entered into a series of four amended and restated operating leases (the "New Fremont Leases," and collectively with the Livermore Leases, the "Operating Leases") with regard to certain improved properties at the Company's headquarters in Fremont, California. Each of the Operating Leases is an off-balance sheet arrangement. The Operating Leases (and associated documents for each Operating Lease) were entered into by the Company and BNP Paribas Leasing Corporation ("BNPPLC").

Each Operating Lease facility has a term of approximately seven years ending on the first business day in January 2015. Under each Operating Lease, the Company may, at its discretion and with 30 days' notice, elect to purchase the property that is the subject of the Operating

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Lease for an amount approximating the sum required to prepay the amount of BNPPLC's investment in the property and any accrued but unpaid rent. Any such amount may also include an additional make-whole amount for early redemption of the outstanding investment, which will vary depending on prevailing interest rates at the time of prepayment.

The Company is required, pursuant to the terms of the Operating Leases and associated documents, to maintain collateral in an aggregate of approximately \$164.9 million in separate interest-bearing accounts as security for the Company's obligations under the Operating Leases. The \$164.9 million is recorded as restricted cash in the Company's Consolidated Balance Sheet as of as of December 26, 2010.

When the term of an Operating Lease expires, the property subject to that Operating Lease may be remarketed. The Company has guaranteed to BNPPLC that each property will have a certain minimum residual value, as set forth in the applicable Operating Lease. The aggregate guarantee made by the Company under the Operating Leases is generally no more than approximately \$141.7 million; however, under certain default circumstances, the guarantee with regard to an Operating Lease may be 100% of BNPPLC's aggregate investment in the applicable property. The amounts payable under such guarantees will be no more than \$164.9 million plus related indemnification or other obligations.

The lessor under the Operating Leases is a substantive independent leasing company that does not have the characteristics of a variable interest entity (VIE) and is therefore not consolidated by the Company.

The Company recognized at lease inception \$0.6 million in estimated liabilities related to the Operating Leases, which represents the fair value guarantee premium that would be required had the guarantee been issued in a standalone transaction. These liabilities are recorded in other long-term liabilities with the offsetting entry recorded as prepaid rent in other assets. The balances in prepaid rent and the guarantee liability are amortized to the statement of operations on a straight line basis over the life of the leases. If it becomes probable that the Company will be required to make a payment under the residual guarantee, the Company will increase its liability with a corresponding increase to prepaid rent and amortize the increased prepaid rent over the remaining lease term with no corresponding reduction in the liability. As of December 26, 2010, the unamortized portion of the fair value of the residual value guarantees remaining in other long-term liabilities and prepaid rent was \$0.3 million.

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 which may limit its exposure to such indemnifications. As of December 26, 2010, the Company had not recorded any liability on its Consolidated Financial Statements in connection with these indemnifications, as it does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

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

Warranties

The Company offers standard warranties on its systems that generally run for a period of 12 months from system acceptance. The liability amount is based on actual historical warranty spending by type of system, customer, and geographic region, modified for any known differences such as the impact of system reliability improvements.

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

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands)			
Balance at beginning of period	\$ 35,612	\$ 20,150	\$ 31,756	\$ 21,185
Warranties issued during the period	14,914	9,089	26,330	14,032
Settlements made during the period	(8,326)	(3,438)	(16,020)	(8,064)
Expirations and change in liability for pre-existing warranties during the period	8	(3,042)	(234)	(4,819)
Changes in foreign currency exchange rates	312	—	688	425
Balance at end of period	<u>\$ 42,520</u>	<u>\$ 22,759</u>	<u>\$ 42,520</u>	<u>\$ 22,759</u>

NOTE 14 — RESTRUCTURING AND ASSET IMPAIRMENTS

Prior to incurring charges under the restructuring plans discussed below, management approved and announced the specific actions to be taken under each plan. Severance packages were communicated to affected employees in sufficient detail that the employees could determine

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their type and amount of benefit. The termination of the affected employees occurred as soon as practical after the restructuring plans were announced. The amount of remaining future lease payments for facilities the Company ceased to use and included in the restructuring charges is based on management's estimates using known prevailing real estate market conditions at that time based, in part, on the opinions of independent real estate experts. Leasehold improvements relating to the vacated buildings were written off, as these items will have no future economic benefit to the Company and have been abandoned.

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

The following table summarizes restructuring and asset impairment charges and reversals during the three and six months ended December 26, 2010 and December 27, 2009 for all restructuring Plans. These amounts were recorded in operating expenses within the Consolidated Statements of Operations for the respective periods.

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands)			
December 2008 Plan	\$ —	\$ —	\$ —	\$ 105
March 2009 Plan	—	5,919	(5,163)	7,907
Total restructuring and asset impairment charges	<u>\$ —</u>	<u>\$ 5,919</u>	<u>\$ (5,163)</u>	<u>\$ 8,012</u>

December 2008 Plan

During the December 2008 quarter the Company incurred restructuring expenses and asset impairment charges designed to better align the Company's cost structure with its business opportunities in consideration of market and economic uncertainties ("December 2008 Plan"). There were no restructuring and asset impairment charges incurred under the December 2008 Plan during the three or six months ended December 26, 2010 or the three months ended December 27, 2009. During the six months ended December 27, 2009 there were \$0.1 million of expenses incurred under the December 2008 Plan relating to severance and benefits. The remaining liability balance under the December 2008 Plan was \$0.3 million as of both December 26, 2010 and June 27, 2010 and relates to severance and benefits.

Total charges incurred through December 26, 2010 under the December 2008 Plan were \$17.9 million.

March 2009 Plan

During the March 2009 quarter the Company incurred restructuring expenses and asset impairment charges designed to align the Company's cost structure with its outlook for the current economic environment and future business opportunities ("March 2009 Plan"). During the September 2010 quarter, the Company reversed certain restructuring and asset impairment charges as a result of a decision to occupy previously restructured facilities. Restructuring and asset impairment charges (reversal) during the three and six months ended December 26, 2010 and December 27, 2009 were as follows:

	Three Months Ended		Six Months Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands)			
Severance and benefits	\$ —	\$ —	\$ —	\$ 472
Facilities	—	5,332	(5,163)	6,848
Asset Impairment	—	587	—	587
Total restructuring and asset impairment charges	<u>\$ —</u>	<u>\$ 5,919</u>	<u>\$ (5,163)</u>	<u>\$ 7,907</u>

Below is a table summarizing activity relating to the March 2009 Plan during the six months ended December 26, 2010:

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	Severance and Benefits (in thousands)	Facilities	Total
Balance at June 27, 2010	\$ 265	\$16,852	\$17,117
Fiscal year 2011 expense (reversal)	—	(5,163)	(5,163)
Cash payments	(222)	(524)	(746)
Balance at December 26, 2010	<u>\$ 43</u>	<u>\$11,165</u>	<u>\$11,208</u>

Total charges incurred through December 26, 2010 under the March 2009 Plan were \$44.3 million.

The severance and benefits-related balances are anticipated to be paid by the end of fiscal year 2011. The facilities balance consists primarily of lease payments, net of sublease income, on vacated buildings and is expected to be paid by the end of fiscal year 2015.

NOTE 15 — STOCK REPURCHASE PROGRAM

On September 8, 2008, the Company announced that its Board of Directors had authorized the repurchase of up to \$250 million of Company common stock from the public market or in private purchases, using the Company's available cash. While the repurchase program does not have a defined termination date, it may be suspended or discontinued at any time. The Company temporarily suspended repurchases under the program during the December 2008 quarter. On February 2, 2010, the Board of Directors authorized the resumption of the repurchase program. The Company completed the repurchase of all amounts available under this share repurchase authorizations during the quarter ended September 26, 2010.

On September 10, 2010, the Company announced that its Board of Directors had authorized the repurchase of up to an additional \$250 million of Company common stock using the Company's available cash. 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. The repurchase program does not have a defined termination date, and it may be suspended or discontinued at any time. On December 6, 2010 the Company entered into a structured stock repurchase arrangement using general corporate funds. This arrangement includes terms that required the Company to make an up-front cash payment to the counterparty and will result in the receipt of either 1.5 million shares of Company stock or \$50.4 million in cash at the maturity of the agreement, at the option of the Company. As of December 26, 2010, the Company prepaid \$50.0 million under its structured stock repurchase arrangement, which expires on April 6, 2011. The Company recorded this payment as a component of additional paid in capital in the Company's Consolidated Balance Sheet as of December 26, 2010.

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

Period	Total Number of Shares Repurchased	Total Cost of Repurchase (in thousands, except per share data)	Average Price Paid Per Share	Amount Available Under Repurchase Program
Available balance as of June 27, 2010				\$ 130,693
Authorization of up to \$250 million - September 2010				\$ 380,693
Quarter ended September 26, 2010	3,389	\$ 130,693	\$ 38.56	\$ 250,000
Quarter ended December 26, 2010	—	\$ —	\$ —	\$ 250,000

During the six months ended December 26, 2010, the Company withheld approximately 110,000 shares at a total cost of \$4.8 million through net share settlements to cover 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 plans.

NOTE 16 — LEGAL PROCEEDINGS

From time to time, the Company has received notices from third parties alleging infringement of such parties' patent or other intellectual property rights by the Company's products. In such cases, it is the Company's policy to defend the claims, or if considered appropriate, negotiate licenses on commercially reasonable terms. However, no assurance can be given that the Company will be able in the future to negotiate necessary licenses on commercially reasonable terms, or at all, or that any litigation resulting from such claims would not have a material adverse effect on the Company's consolidated financial position or operating results.

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 "we believe," "we anticipate," "we expect," "may," "should," "could" and other future-oriented terms. The identification of certain statements as "forward-looking" is not intended to 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 in the global economic environment and the semiconductor industry; the anticipated levels of, and rates of change in, future shipments, margins, market share, capital expenditures, revenue and operating expenses generally; volatility in our quarterly results; customer requirements and our ability to satisfy those requirements; customer capital spending and their demand for our products; our ability to defend our market share and to gain new market share; anticipated growth in the industry and the total market for wafer-fabrication equipment and our growth relative to such growth; levels of research and development ("R&D") expenditures; 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 liabilities and the adequacy of our accruals relating to them); our access to capital markets; our ability to manage and grow our cash position; and the sufficiency of our financial resources 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 27, 2010, our quarterly report on Form 10-Q for the quarter ended September 26, 2010, 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 undertake no 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 hereof or to reflect the occurrence or effect of anticipated or unanticipated events.

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

For a full understanding of our financial position and results of operations for the three and six months ended December 26, 2010, 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 2010 Form 10-K.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations consists of the following sections:

Executive Summary provides an overview of the Company's operations and a summary of certain highlights of our results of operations

Results of Operations provides an analysis of operating results

Critical Accounting Policies and Estimates discusses accounting policies that reflect the more significant judgments and estimates we use to prepare our Condensed Consolidated Financial Statements

Liquidity and Capital Resources provides an analysis of cash flows, contractual obligations and financial position

EXECUTIVE SUMMARY

We design, manufacture, market, refurbish, and service semiconductor processing equipment used in the fabrication of integrated circuits and are recognized as a major provider of such equipment to the worldwide semiconductor industry. Our customers include semiconductor memory and foundry manufacturers that make DRAM, flash memory, and logic integrated circuits for a wide range of consumer and industrial electronics. Semiconductor wafers are subjected to a complex series of process and preparation steps that result in the simultaneous creation of many individual integrated circuits. We leverage our expertise in the areas of etch and single-wafer clean to develop processing solutions that typically benefit our customers through lower defect rates, enhanced yields, faster processing time, and/or reduced cost as well as by facilitating their ability to meet more stringent performance and design standards.

The semiconductor industry is cyclical in nature and has historically experienced periodic and pronounced downturns and upturns. Today's leading indicators of change in customer investment patterns may not be any more reliable than in prior years. Demand for our equipment can vary significantly from period to period as a result of various factors, including, but not limited to, economic conditions (both general and in the semiconductor and electronics industries), supply, demand, prices for semiconductors, customer capacity requirements, and our ability to develop, acquire, and market competitive products. For these and other reasons, our results of operations during any particular fiscal period are not necessarily indicative of future operating results.

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Our shipments, revenue and net income increased in the December 2010 quarter compared to the September 2010 quarter, in response to improved customer demand. We expect industry conditions to be relatively stable in calendar year 2011 versus 2010.

We believe that, over the long term, demand for our products will continue to increase as customers' capital expenditures increase to meet growing demand for semiconductor devices. However, historically, changes in demand for semiconductor manufacturing equipment have been irregular and unpredictable. Accordingly, any forecasts about demand for wafer fabrication equipment in the near term are subject to uncertainty, and we could experience significant volatility in our quarterly results of operations over the next several quarters. In calendar year 2011 we believe that the opportunity exists for expansion in the wafer fab equipment market as compared to calendar year 2010. This expansion is dependent on, among other things, world-wide GDP growth and customer adoption rates for new products such as tablet devices and high end smart phones. Ultimately we cannot precisely predict the robustness or pace of any macroeconomic recovery. At present, customer input suggests that shipments in the first half of calendar year 2011 will be at comparable levels versus the latter half of 2010, even though we expect shipments to decline to some extent in the March 2011 quarter.

The following table summarizes certain key financial information for the periods indicated below (in thousands, except percentage and per share data):

	Three Months Ended		
	December 26, 2010	September 26, 2010	December 27, 2009
Revenue	\$870,714	\$805,874	\$487,176
Gross margin	\$407,433	\$377,326	\$221,187
Gross margin as a percent of total revenue	46.8%	46.8%	45.4%
Total operating expenses	\$166,329	\$153,332	\$129,839
Net income	\$221,856	\$193,724	\$ 69,574
Diluted net income per share	\$ 1.78	\$ 1.55	\$ 0.54

Our results for the December 2010 quarter reflect continued improvement in the global business environment and in the semiconductor industry with improved foundry fab utilization and high levels of production of next-generation DRAM and NAND devices by leading memory companies.

Throughout calendar year 2010, we maintained our investments in new product R&D to defend our market share and win new application share. Our activities also focused on improving our customers' installed base productivity through improved performance and lower cost of ownership. We improved our operational capability relative to cycle time for material procurement and manufacturing. We believe that these activities and others will allow us to maintain and improve our market share and cash generation capabilities.

In the quarter ended December 26, 2010, revenue increased, as compared to the quarter ended September 26, 2010, primarily reflecting increased system shipments driven by growth in customer demand. Gross margin as a percent of revenues was consistent in both the December and September 2010 quarters.

Operating expenses in the December 2010 quarter increased as compared to the quarter ended September 26, 2010. This change is primarily due to increased research and development activities and enhanced levels of sales and marketing expense associated with customer projects, and we expect that this trend may continue into calendar year 2011. In addition, the September 2010 quarter included a reversal of restructuring charges which did not reoccur in the December 2010 quarter.

Our cash and cash equivalents, short-term investments, and restricted cash and investments balances totaled approximately \$1.2 billion as of December 26, 2010 compared to \$1.1 billion as of September 26, 2010. Cash generated by operations was approximately \$186 million during the December 2010 quarter. We used cash to prepay \$50 million under a structured stock purchase agreement (see Note 15 to the Consolidated Financial Statements) and to purchase \$38 million of property, plant, and equipment. Employee headcount increased to approximately 3,400 as of December 26, 2010, from approximately 3,300 as of September 26, 2010.

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RESULTS OF OPERATIONS

Shipments

	Three Months Ended		
	December 26, 2010	September 26, 2010	December 27, 2009
Shipments (in millions)	\$ 892	\$ 808	\$ 519
North America	11%	5%	7%
Europe	13%	11%	6%
Japan	10%	12%	12%
Korea	18%	29%	26%
Taiwan	29%	28%	37%
Asia Pacific	19%	15%	12%

Shipments for the December 2010 quarter increased 10% compared to the September 2010 quarter and 72% year over year. During the December 2010 quarter, applications at or below the 65 nanometer technology node were 88% of total systems shipments. The memory market segment, foundry, and integrated device manufacturers were approximately 40%, 38% and 22% of shipments, respectively.

Revenue

	Three Months Ended			Six Months Ended	
	December 26, 2010	September 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
Revenue (in thousands)	\$ 870,714	\$ 805,874	\$ 487,176	\$1,676,588	\$ 805,724
North America	6%	5%	8%	6%	8%
Europe	13%	10%	6%	12%	6%
Japan	11%	12%	15%	11%	16%
Korea	18%	36%	25%	27%	25%
Taiwan	38%	21%	35%	30%	33%
Asia Pacific	14%	16%	11%	14%	12%

Revenue for the December 2010 quarter increased 8% compared to the September 2010 quarter and 79% year over year. Revenue increased in all product lines. Our revenue levels are generally correlated to our shipment, installation and acceptance timelines. The overall Asia region continues to account for a predominant portion of our revenues as a substantial amount of the worldwide capacity additions for semiconductor manufacturing continues to occur in this region. Our deferred revenue balance increased to \$223 million as of December 26, 2010 compared to \$217 million as of September 26, 2010. Our deferred revenue balance does not include shipments to Japanese customers, to whom title does not transfer until customer acceptance. Shipments to Japanese customers are classified as inventory at cost until the time of acceptance. The anticipated future revenue value from shipments to Japanese customers was approximately \$48 million as of December 26, 2010 compared to \$50 million as of September 26, 2010.

Gross Margin

	Three Months Ended			Six Months Ended	
	December 26, 2010	September 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands, except percentages)				
Gross margin	\$ 407,433	\$ 377,326	\$ 221,187	\$ 784,759	\$ 355,622
Percent of total revenue	46.8%	46.8%	45.4%	46.8%	44.1%

Gross margin as a percentage of revenue remained unchanged at 46.8% during both the December and September 2010 quarters.

The increase in gross margin as a percentage of revenue during the three and six months ended December 26, 2010 as compared to the same periods in the prior year was due primarily to increased factory and field utilization.

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Research and Development

	Three Months Ended			Six Months Ended	
	December 26, 2010	September 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands, except percentages)				
Research and development	\$ 90,477	\$ 86,353	\$ 82,171	\$ 176,830	\$ 153,370
Percent of total revenue	10.4%	10.7%	16.9%	10.5%	19.0%

We continue to make significant R&D investments focused on plasma etch, single-wafer clean and other semiconductor manufacturing requirements. The increase in R&D expenses during the December 2010 quarter compared to the September 2010 quarter was primarily due to approximately \$3 million of increased salary, benefit, and travel costs related to higher headcount and \$2 million of increased costs for supplies and outside services.

The increase in R&D expenses during the three months ended December 26, 2010 as compared to the same period in the prior year was due to approximately \$5 million of increased salary, benefit, and travel costs related to higher headcount and \$1 million of higher variable compensation associated with higher revenue and profit levels. The increase in R&D expenses during the six months ended December 26, 2010 as compared to the same period in the prior year was due to approximately \$10 million of increased salary, benefit, and travel costs related to higher headcount, \$8 million of higher variable compensation associated with higher revenue and profit levels, and \$3 million of increased costs for supplies and outside services.

Selling, General and Administrative

	Three Months Ended			Six Months Ended	
	December 26, 2010	September 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands, except percentages)				
Selling, general and administrative ("SG&A")	\$ 75,852	\$ 72,142	\$ 60,111	\$ 147,994	\$ 112,230
Percent of total revenue	8.7%	9.0%	12.3%	8.8%	13.9%

The sequential increase in SG&A expenses in the December 2010 quarter was primarily due to approximately \$3 million of increased costs for supplies and outside services and \$2 million of increased salary, benefit, and travel costs related to higher headcount.

The increase in SG&A expenses for the December 2010 quarter compared to the same period in the prior year was primarily due to \$9 million of higher variable compensation associated with higher revenue and profit levels, \$5 million of increased costs for supplies and outside services, and \$4 million of increased salary, benefit, and travel costs related to higher headcount. The increase in SG&A expenses for the six months ended December 26, 2010 compared to the same period in the prior year was primarily due to \$21 million of higher variable compensation associated with higher revenue and profit levels, \$9 million of increased salary, benefit, and travel costs related to higher headcount, and \$6 million of increased costs for supplies and outside services.

Restructuring and Asset Impairments

The following table summarizes charges (recoveries/reversals) under each of the plans described below for the periods indicated:

	Three Months Ended			Six Months Ended	
	December 26, 2010	September 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(in thousands)				
December 2008 Plan	—	—	—	—	105
March 2009 Plan	—	(5,163)	5,919	(5,163)	7,907
Total restructuring and asset impairment charges incurred under restructuring plans	\$ —	\$ (5,163)	\$ 5,919	\$ (5,163)	\$ 8,012

During fiscal years 2009 and 2010, we incurred restructuring and asset impairment charges designed to better align our cost structure with our business opportunities in consideration of market and economic uncertainties ("December 2008 Plan"). These charges consisted primarily of severance and related benefits costs as well as certain facilities related costs and asset impairments.

During fiscal years 2009 and 2010, we also incurred restructuring and asset impairment charges designed to align our cost structure with our outlook for the economic environment and future business opportunities at that time ("March 2009 Plan"). These charges consisted primarily of severance and related benefits costs as well as certain facilities related costs and asset impairments. During fiscal year 2011, we recorded a reversal of \$5.2 million as a result of a decision to occupy certain previously restructured facilities.

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For further details related to restructuring and asset impairment, see Note 14 of the Notes to Consolidated Financial Statements.

409A Expense

Following the voluntary independent review of our historical employee stock option grant process in 2007, we considered whether Section 409A (“Section 409A”) of the Internal Revenue Code of 1986, as amended (“IRC”) and similar provisions of state law would apply to certain stock option grants that were found to have intrinsic value at the time of their respective measurement dates. If a stock option is not considered as issued with an exercise price of at least the fair market value of the underlying stock on the date of grant, it may be subject to penalty taxes under Section 409A and similar provisions of state law. Under those circumstances, taxes may be assessed not only on the intrinsic value increase, but on the entire stock option gain as measured at various times. On March 30, 2008, our Board of Directors authorized us to assume potential tax liabilities of certain employees, including our Chief Executive Officer and certain other executive officers, relating to options that might be subject to Section 409A and similar provisions of state law. Those liabilities totaled \$51 million; \$45 million was recorded in operating expenses and \$6 million in cost of goods sold in our Consolidated Statements of Operations for fiscal year 2008. We incurred \$3 million of expense during fiscal year 2009 consisting of interest and legal fees.

During fiscal year 2010, we reached final settlement of matters associated with our Section 409A expenses with the Internal Revenue Service (“IRS”) and California Franchise Tax Board (“FTB”) resulting in a credit of \$44 million due to the reversal of Section 409A liabilities. This credit was recorded in the six months ended December 27, 2009. The determinations from the voluntary independent stock option review are more fully described in Note 3, “Restatement of Consolidated Financial Statements” to Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of our 2007 Form 10-K.

There were no expenses related to Section 409A in the three or six months ended December, 26 2010.

Other Income (Expense), Net

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

	Three Months Ended			Six Months Ended	
	December 26, 2010	September 26, 2010 (in thousands)	December 27, 2009	December 26, 2010	December 27, 2009
Interest income	\$ 4,548	\$ 3,076	\$ 2,008	\$ 7,624	\$ 4,056
Interest expense	(110)	(101)	(245)	(211)	(434)
Foreign exchange gain (loss)	(3,108)	(3,179)	(195)	(6,287)	(1,989)
Other, net	(292)	(775)	(1,626)	(1,067)	(2,059)
	<u>\$ 1,038</u>	<u>\$ (979)</u>	<u>\$ (58)</u>	<u>\$ 59</u>	<u>\$ (426)</u>

Interest income increased in the three and six months ended December 26, 2010 compared with the three months ending September 27, 2010, and three and six months December 27, 2009 primarily due to increases in our average cash and investment balances.

Foreign exchange losses during the three and six months ending December 26, 2010 as compared to the three and six months ending December 27, 2009, were a result of changes in the value of our foreign currency denominated liabilities net of hedging activities.

Income Tax Expense

Our effective tax rates for the three and six months ended December 26, 2010 were 8.4% and 10.7%, respectively. Our effective tax rate for the three and six months ended December 27, 2009 were approximately 23.8% and 28.1%, respectively. The decrease in the effective tax rate for the three months ended December 26, 2010 compared to the three months ended December 27, 2009 was primarily due to the geographical mix of income and non-recurring tax expense related to 409A settlement from the California Franchise Tax Board (“FTB”) audit recorded in the three months ended December 27, 2009. The decrease in the effective tax rate for the six months ended December 26, 2010 compared to the six months ended December 27, 2009 was primarily due to the geographical mix of income and non-recurring tax expense related to 409A settlements from the Internal Revenue Service (“IRS”) and California FTB audits recorded in the six months ended December 27, 2009.

The effective tax rates of 8.4% and 10.7% for the three and six months ended December 26, 2010, respectively, included the tax impact of the following discrete items which are recorded in the period in which they occur: (1) a tax expense of \$1.0 million and \$2.0 million, respectively, of interest related to uncertain tax positions, (2) a tax benefit of \$4.8 million in both periods related to the retroactive extension of the U.S. federal research and development credit for part of fiscal year 2010, (3) a tax benefit of \$3.0 million and \$3.2 million, respectively, due to the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to finalization of certain foreign tax positions, and (4) a tax expense of zero and \$2.1 million, respectively, related to the reversal of accrued restructuring expenses. The effective tax rates of 23.8% and 28.1% for the three and six months ended December 27, 2009 were impacted by the following discrete events: (1) a tax expense of \$8.4 million and \$17.7 million, respectively, related to the 409A settlement from the IRS and California FTB audits, (2) a tax expense of \$0.9 million and \$1.8 million, respectively, of interest related to uncertain tax positions, (3) a tax benefit of \$2.8 million and

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\$3.5 million, respectively, related to the accrual of restructuring expenses,(4) a tax benefit of \$2.6 million and \$2.6 million, respectively, due to the recognition of previously unrecognized tax benefits and the reversal of the related interest accruals due to finalization of certain foreign uncertain tax positions, and (5) a tax expense of approximately zero and \$2.2 million, respectively, related to a change in valuation allowance on California R&D credits.

Deferred Income Taxes

We had gross deferred tax assets, related primarily to reserves and accruals that are not currently deductible and tax credit carryforwards, of \$134.4 million and \$137.4 million as of December 26, 2010, and June 27, 2010, respectively. The gross deferred tax assets were offset by deferred tax liabilities of \$36.3 million and a valuation allowance of \$37.0 million as of December 26, 2010. The gross deferred tax assets were offset by deferred tax liabilities of \$36.3 million and a valuation allowance of \$37.0 million as of June 27, 2010.

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, 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 would not be able to realize all or part of our net deferred tax assets, an adjustment would 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 would be realized, then the previously provided valuation allowance would be reversed. Our current valuation allowance of \$37.0 million relates to certain California and foreign deferred tax assets.

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. Such a 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 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.

We believe that the following critical accounting policies reflect the more significant judgments and estimates we use in preparing our Consolidated Financial Statements.

Revenue Recognition: We recognize all revenue when persuasive evidence of an arrangement exists, delivery has occurred and title has passed or services have been rendered, the selling price is fixed or determinable, collection of the receivable is reasonably assured, and we have completed our system installation obligations, received customer acceptance or are otherwise released from our installation or customer acceptance obligations. If terms of the sale provide for a lapsing customer acceptance period, we recognize revenue upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. If the practices of a customer do not provide for a written acceptance or the terms of sale do not include a lapsing acceptance provision, we recognize revenue when it can be reliably demonstrated that the delivered system meets all of the agreed-to customer specifications. In situations with multiple deliverables, we recognize revenue upon the delivery of the separate elements to the customer and when we receive customer acceptance or are otherwise released from our customer acceptance obligations. We allocate revenue from multiple-element arrangements among the separate elements based on their relative selling prices, provided the arrangement does not include a general right of return relative to the delivered item and delivery, or performance of the undelivered item(s) is considered probable and substantially in our control. The maximum revenue we recognize on a delivered element is limited to the amount that is not contingent upon the delivery of additional items. We generally recognize revenue related to sales of spare parts and system upgrade kits upon shipment. We generally recognize revenue related to services upon completion of the services requested by a customer order. We recognize revenue for extended maintenance service contracts with a fixed payment amount on a straight-line basis over the term of the contract.

Inventory Valuation: Inventories are stated at the lower of cost or market using standard costs which generally approximate actual costs on a first-in, first-out basis. We maintain a perpetual inventory system and continuously record the quantity on-hand and standard cost for each product, including purchased components, subassemblies, and finished goods. We maintain the integrity of perpetual inventory records through periodic physical counts of quantities on hand. Finished goods are reported as inventories until the point of title transfer to the customer. Generally, title transfer is documented in the terms of sale. Unless specified in the terms of sale, title generally transfers when we complete physical transfer of the products to the freight carrier. Transfer of title for shipments to Japanese customers generally occurs at the time of customer acceptance.

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We reassess standard costs as needed but annually at a minimum, and reflect achievable acquisition costs. Acquisition costs are generally based on the most recent vendor contract prices for purchased parts, normalized assembly and test labor utilization levels, methods of manufacturing, and normalized overhead. Manufacturing labor and overhead costs are attributed to individual product standard costs at a level planned to absorb spending at average utilization volumes. We eliminate all intercompany profits related to the sales and purchases of inventory between our legal entities from our Consolidated Financial Statements.

Management evaluates the need to record adjustments for impairment of inventory at least quarterly. 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 requirements over the next 12 to 36 months is written down to its estimated market 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: Typically, the sale of semiconductor capital equipment includes providing parts and service warranty to customers as part of the overall price of the system. We provide standard warranties for our systems that generally run for a period of 12 months from system acceptance. When appropriate, we record a provision for estimated warranty expenses to cost of sales for each system when we recognize revenue. We do not maintain general or unspecified reserves; all warranty reserves are related to specific systems. The amount recorded is based on an analysis of historical activity which uses factors such as type of system, customer, geographic region, and any known factors such as tool reliability trends. All actual or estimated parts and labor costs incurred in subsequent periods are charged to those established reserves on a system-by-system basis.

Actual warranty expenses are accounted for on a system-by-system basis and may differ from our original estimates. While 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. In addition to the provision of standard warranties, we offer customer-paid extended warranty services. Revenues for extended maintenance and warranty services with a fixed payment amount are recognized on a straight-line basis over the term of the contract. Related costs are recorded as incurred.

Equity-based Compensation — Employee Stock Purchase Plan ("ESPP") and Employee Stock Plans: GAAP requires us to recognize the fair value of equity-based compensation in net income. We determine the fair value of our restricted stock units ("RSUs") based upon the fair market value of Company stock at the date of grant. We estimate the fair value of our stock options and ESPP awards using the Black-Scholes option valuation model. This model requires us to input highly subjective assumptions, including expected stock price volatility and the estimated life of each award. We amortize the fair value of equity-based awards over the vesting periods of the awards, and we have elected to use the straight-line method of amortization.

We make quarterly assessments of the adequacy of our tax credit pool related to equity-based compensation to determine if there are any deficiencies that we are required to recognize in our Consolidated Statements of Operations. We will only recognize a benefit from stock-based compensation in paid-in-capital if we realize an incremental tax benefit after all other tax attributes currently available to us have been utilized. In addition, we have elected to account for the indirect benefits of stock-based compensation on the research tax credit through the income statement (continuing operations) rather than through paid-in-capital. We have also elected to net deferred tax assets and the associated valuation allowance related to net operating loss and tax credit carryforwards for the accumulated stock award tax benefits for income tax footnote disclosure purposes. We will track these stock award attributes separately and will only recognize these attributes through paid-in-capital.

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 the time. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment would 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 would be realized, then the previously provided valuation allowance would be reversed.

We calculate our current and deferred tax provision based on estimates and assumptions that can differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are recorded when identified.

We recognize the benefit from a tax position only if it is more-likely-than-not that the position would 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. Please refer to Note 10 of these Notes to the Consolidated Financial Statements for additional information.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective

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to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these 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. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period such determination is made.

Goodwill and Intangible Assets: Goodwill represents the amount by which the purchase price in each business combination exceeds the fair value of the net tangible and identifiable intangible assets acquired. We allocate the carrying value of goodwill to our reporting units. We test goodwill and identifiable intangible assets with indefinite useful lives for impairment at least annually. We amortize intangible assets with estimable useful lives over their respective estimated useful lives to their estimated residual values, and we review for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable and the carrying amount exceeds its fair value.

We review goodwill at least annually for impairment. If certain events or indicators of impairment occur between annual impairment tests, we would perform an impairment test of goodwill at that date. In testing for a potential impairment of goodwill, we: (1) allocate goodwill to our 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, as some of the assets and liabilities related to those reporting units are not held by those reporting units but by a corporate function. Prior to this allocation of the assets to the reporting units, we are required to 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.

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 a weighted combination of both market and an income approach, as this combination is deemed to be the most indicative of fair value in an orderly transaction between market participants.

Under the market approach, we use information regarding the reporting unit as well as publicly available industry information to determine various financial multiples to value our reporting units. 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 for the purposes of our annual or periodic analyses, 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. We also consider our market capitalization and that of our competitors on the date we perform the analysis. Changes in judgment on these assumptions and estimates could result in a goodwill impairment charge.

As a result, several factors could result in 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 failure of the Company to reach its 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 stock price and resulting market capitalization, if we determine that the decline is sustained and indicates a reduction in the fair value of our reporting units below their carrying value. In addition, the value we assign to intangible assets, other than goodwill, is based on our estimates and judgments regarding expectations such as the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from our estimates, we may be required to record an impairment charge to write down the asset to its realizable value.

Recent Accounting Pronouncements

In September 2009, the FASB ratified guidance from the Emerging Issues Task Force (“EITF”) regarding revenue arrangements with multiple deliverables. This guidance addresses criteria for separating the consideration in multiple-element arrangements and requires companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price. We adopted this guidance on June 28, 2010, on a prospective basis, and the adoption did not have a significant impact on our results of operations or financial condition.

In September 2009, the FASB also ratified guidance from the EITF regarding certain revenue arrangements that include software elements. This guidance modifies the scope of the software revenue recognition rules to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product’s essential functionality. We adopted this guidance on June 28, 2010, on a prospective basis, and the adoption did not have a significant impact on our results of operations or financial condition.

LIQUIDITY AND CAPITAL RESOURCES

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As of December 26, 2010, we had \$1.2 billion in cash and cash equivalents, short-term investments, and restricted cash and investments (total cash and investments) compared to \$992 million as of June 27, 2010.

Cash Flows from Operating Activities

Net cash provided by operating activities of \$441.3 million during the six months ended December 26, 2010 consisted of (in millions):

Net income	\$415.6
Non-cash charges:	
Depreciation and amortization	36.6
Equity-based compensation	25.8
Restructuring charges, net	(5.2)
Net tax benefit on equity-based compensation plans	1.0
Deferred income taxes	(3.8)
Changes in operating asset and liability accounts	(25.0)
Other	(3.7)
	<u>\$441.3</u>

Changes in operating asset and liability accounts, net of foreign exchange impact, of \$25.0 million included the following uses of cash: increases in accounts receivable of \$189.7 million and inventories of \$14.9 million, partially offset by the following sources of cash: increases in accrued expenses and other liabilities of \$107.7 million, accounts payable of \$47.7 million, and deferred profit of \$11.9 million, and decreases in prepaid and others assets of \$21.3 million. These changes in overall cash were all consistent with increased business volumes.

Cash Flows from Investing Activities

Net cash used for investing activities during the six months ended December 26, 2010 was \$81.3 million, primarily consisting of capital expenditures of \$57.2 million and net purchases of available-for-sale securities of \$25.7 million.

Cash Flows from Financing Activities

Net cash used for financing activities during the six months ended December 26, 2010 was \$187.7 million, which included \$148.9 million in treasury stock repurchases, a \$50 million prepayment for the potential purchase of treasury stock under the structured stock repurchase arrangement (see Note 15 of Notes to Consolidated Financial Statements), and \$3.4 million in principal payments on long-term debt and capital leases, partially offset by net proceeds from issuance of common stock related to employee equity-based plans of \$11.4 million and the effect of excess tax benefits on equity based compensation of \$3.2 million.

Liquidity

Given the cyclical nature of the semiconductor equipment industry, we believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in R&D and capital infrastructure. Based upon our current business outlook, we expect that our levels of cash, cash equivalents, and short-term investments at December 26, 2010 will be sufficient to support our presently anticipated levels of operations, investments, debt service requirements, and capital expenditures, through at least the next 12 months.

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. If we require additional funding, we may need 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 certainty that such funding will be available in needed quantities or on terms favorable to us.

Off-Balance Sheet Arrangements and Contractual Obligations

We have certain obligations to make future payments under various contracts, some of which are recorded on our balance sheet and some of which are not. Obligations are recorded on our balance sheet in accordance with GAAP and include our long-term debt which is outlined in the following table and noted below. Our off-balance sheet arrangements include contractual relationships and are presented as operating leases and purchase obligations in the table below. Our contractual cash obligations and commitments as of December 26, 2010, relating to these agreements and our guarantees are included in the following table. The amounts in the table below exclude \$118.3 million of liabilities related to uncertain tax benefits as we are unable to reasonably estimate the ultimate amount or time of settlement.

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	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Purchase Obligations</u> (in thousands)	<u>Long-term Debt and Interest Expense</u>	<u>Total</u>
Payments due by period:					
Less than 1 year	\$ 10,840	\$ 1,777	\$ 152,714	\$ 2,696	\$168,027
1-3 years	16,744	3,375	67,924	1,377	89,420
3-5 years	149,728	2,938	33,361	—	186,027
Over 5 years	697	9,785	2,826	—	13,308
Total	<u>\$178,009</u>	<u>\$17,875</u>	<u>\$ 256,825</u>	<u>\$ 4,073</u>	<u>\$456,782</u>

Operating Leases and Related Guarantees

We lease most of our administrative, R&D and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases, which expire at various dates through fiscal year 2016. Certain of our facility leases for buildings located at our Fremont, California headquarters and certain other facility leases provide us with options to extend the leases for additional periods or to purchase the facilities. Certain of our facility leases provide for periodic rent increases based on the general rate of inflation.

Included in the Operating Leases 3-5 years section of the table above is \$141.7 million in guaranteed residual values for lease agreements relating to certain properties at our Fremont, California campus and properties in Livermore, California. The remaining operating lease balances primarily relate to non-cancelable facility-related operating leases.

Capital Leases

Capital leases reflect building and office equipment lease obligations. The amounts in the table above include the interest portion of payment obligations.

Purchase Obligations

Purchase obligations consist of significant contractual obligations either on an annual basis or over multi-year periods related to our outsourcing activities or other material commitments, including vendor-consigned inventories. We continue to enter into new agreements and maintain existing agreements to outsource certain activities, including elements of our manufacturing, warehousing, logistics, facilities maintenance, certain information technology functions, and certain transactional general and administrative functions. The contractual cash obligations and commitments table presented above contains our obligations at December 26, 2010 under these arrangements and others. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to these obligations, certain of these agreements include early termination provisions and/or cancellation penalties which could increase or decrease amounts actually paid.

Long-Term Debt

Our remaining total long-term debt as of December 26, 2010 consisted of various bank loans and government subsidized technology loans supporting operating needs.

Other Guarantees

We have issued certain indemnifications to our lessors for taxes and general liability under some of our agreements. We have entered into certain insurance contracts that may limit our exposure to such indemnifications. As of December 26, 2010, we had not recorded any liability on our Consolidated Financial Statements in connection with these indemnifications, as we do not believe, based on information available, that it is probable that we will pay any amounts under these guarantees.

Generally, we indemnify, under pre-determined conditions and limitations, our customers for infringement of third-party intellectual property rights by our products or services. We seek to limit our liability for such indemnity to an amount not to exceed the sales price of the products or services subject to its indemnification obligations. We do not believe, based on information available, that it is probable that we will pay any material amounts under these guarantees.

Warranties

We offer standard warranties on its systems that run generally for a period of 12 months from system acceptance. 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.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

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For financial market risks related to changes in interest rates and foreign currency exchange rates, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk”, in our 2010 Form 10-K.

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio, long-term debt, and operating leases. We maintain a conservative investment policy, which focuses on the safety and preservation of our invested funds by limiting default risk, market risk, and reinvestment risk. 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.

We believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in our business activities. Anticipated cash flows from operations based on our current business outlook, combined with our current levels of cash, cash equivalents, and short-term investments at December 26, 2010 are expected to be sufficient to support our anticipated levels of operations, investments, debt service requirements, and capital expenditures, 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.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Exchange Act Rule 13a-15(b), as of December 26, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer, along with our Chief Financial Officer, concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we have received notices from third parties alleging infringement of such parties' patent or other intellectual property rights by our products. In such cases it is our policy to defend the claims, or if considered appropriate, negotiate licenses on commercially reasonable terms. However, no assurance can be given that we will be able in the future to negotiate necessary licenses on commercially reasonable terms, or at all, or that any litigation resulting from such claims would not have a material adverse effect on our consolidated financial position or operating results.

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 the Company and its 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 Equipment Industry is Subject to Major Fluctuations and, as a Result, We Face Risks Related to Our Strategic Resource Allocation Decisions

The business cycle in the semiconductor equipment industry has historically been characterized by frequent periods of rapid change in demand that challenge 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, procedures for training, managing, and appropriately sizing our supply chain, our work force, and other components of our business on a timely basis.

If we do not adequately meet these challenges during periods of demand decline, our gross margins and earnings may be impaired. In late 2008 and throughout 2009, the semiconductor industry experienced a general decline in demand, leading to a steep decline in demand for our products and services. In response to that industry demand decline and in an effort to minimize the disruptive effects of the deteriorating economic conditions on our business operating results, we made difficult resource allocation decisions, including layoffs and restructurings.

During fiscal year 2010 we transitioned into a period of demand growth, although the duration and intensity of the growth in fiscal 2011 is still uncertain. This demand growth has been fueled in large part by increased investment by customers who, during the downturn, reduced or eliminated their spending on our products.

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 this period of growth, or we may expand our capacity too rapidly and/or beyond what is appropriate for the actual demand environment.

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

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

Our business depends on the capital equipment expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits. The semiconductor industry is cyclical in nature and historically experiences periodic downturns. Global economic and business conditions, 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, some of 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, economic downturns 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;
- 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;

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- 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 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 and operating results. 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 Unpredictable

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 equipment industry;
- the size and timing of orders from customers;
- 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;
- changes in average selling prices, customer mix, and product mix;
- our ability in a timely manner to develop, introduce and market new, enhanced, and competitive products;
- our competitors' introduction of new products;
- legal or technical challenges to our products and technology;
- transportation, communication, demand, information technology or supply disruptions based on factors outside our control such as acts of God, wars, terrorist activities, and natural disasters;
- natural, physical, logistical or other events or disruptions affecting our principal facilities (including labor disruptions, facility relocations or expansions, earthquakes, and power failures)
- legal, tax, accounting, or regulatory changes (including but not limited to change in import/export regulations) or changes in the interpretation or enforcement of existing requirements;
- changes in our estimated effective tax rate; and
- foreign currency exchange rate fluctuations.

We Derive Our Revenues Primarily from a Relatively Small Number of High-Priced Systems

System sales constitute a significant portion of our total revenue. Our systems are priced up to approximately \$6 million per unit, and our revenues in any given quarter are dependent upon the acceptance of a limited number of systems. As a result, the inability to recognize revenue on even a few systems can cause a significantly adverse impact on our revenues for that quarter.

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 and profitability. As a result, the actions of even one customer may subject us to variability in those areas that are difficult to predict. In addition, large customers may be able to negotiate requirements that result in increased costs and/or lower margins for us. 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.

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Variations in the Amount of Time it Takes for Our Customers to Accept Our Systems May Cause Fluctuation in Our Operating Results

We generally recognize revenue for new system sales on the date of customer acceptance or the date the contractual customer acceptance provisions lapse. As a result, the fiscal period in which we are able to recognize new systems revenues is typically subject to the length of time that our customers require to evaluate the performance of our equipment after shipment and installation, which may vary from customer to customer and tool to tool. Such variations could cause our quarterly operating results to fluctuate.

We Depend on New 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 have reliability, quality, or design 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 new products successfully, or new products that we introduce may fail in the marketplace. Our failure to commercialize these new products in a timely manner could result in unanticipated costs and inventory obsolescence, which would adversely affect our financial results.

In order to develop new products and processes, we expect to continue to make significant investments in R&D and to pursue joint development relationships with customers, suppliers or other members of the industry. We must manage product transitions and joint development relationships successfully, as the introduction of new products could adversely affect our sales of existing products. Moreover, future technologies, processes or product developments may render our current product offerings obsolete, leaving us with non-competitive products, or obsolete inventory, or both.

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, and we expect our etch and clean products to continue to account for a large percentage of our revenues in the near term. Continued market acceptance of these products is, therefore, 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 customer or market segments;
- an improved version of products being offered by a competitor in the market 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 as well. 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. Since we are a provider of etch and clean equipment, our business is affected by our customers' use of etching and clean steps in their processes. Should technologies change so that the manufacture of semiconductor chips requires fewer etching or clean steps, this could have a larger impact on our business than it would on the business of our less concentrated competitors.

Strategic Alliances May Have Negative Effects on Our Business

Increasingly, semiconductor companies are entering into strategic alliances with one another to expedite the development of processes and other manufacturing technologies. Often, one of the outcomes of such an alliance is the definition of a particular tool set for a certain function or a series of process steps that use a specific set of manufacturing equipment. While this could work to our advantage if our equipment becomes the basis for the function or process, it could work to our disadvantage if a competitor's tools or equipment become the standard equipment for such function or process. In the latter case, even if our equipment was previously used by a customer, that equipment may be displaced in current and future applications by the tools standardized by the alliance.

Similarly, our customers may team 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. These actions could adversely impact our market share and financial results.

We are Dependent On a Limited Number of Key Suppliers

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We obtain certain components and sub-assemblies included in our products from a single supplier or a limited group of suppliers. We have established long-term contracts with many of these suppliers. These long-term contracts can take a variety of forms. We may renew these contracts periodically. In some cases, these suppliers have sold us products during at least the last five years, and we expect that we will continue to renew these contracts in the future or that we will otherwise replace them with competent alternative suppliers. However, certain of our suppliers are relatively new providers to us so that our experience with them and their performance is limited. Where practical, we intend to establish alternative sources to mitigate the risk that the failure of any single supplier will adversely affect our business. Nevertheless, a prolonged inability to obtain certain components could impair our ability to ship products and generate revenues, which could adversely affect our operating results and damage to our customer relationships.

Our Outsource Providers May Fail to Perform as We Expect

Outsource providers have played and will continue to play a key role in our manufacturing operations and in many of our transactional and administrative functions, such as information technology, facilities management, and certain elements of our finance organization. Although we attempt to select reputable providers and secure their performance on terms documented in written contracts, it is possible that one or more of these providers could fail to perform as we expect and such failure could have an adverse impact on our business.

In addition, the expansive role of our outsource providers has required and may continue to require us to implement changes to our existing operations and to adopt new procedures to deal with and manage the performance of these outsource providers. Any delay or failure in the implementation of our operational changes and new procedures could adversely affect our customer and/or employee relationships, which could have a negative effect on our 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. Accordingly, we expect it to be more difficult to sell to a given customer if that customer initially selects a competitor's equipment.

We Face a Challenging and Complex Competitive Environment

We face significant competition from multiple competitors. Other companies continue to develop systems and products that are competitive to ours and may introduce new products, which may affect our ability to sell 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 a broad range of products, to maintain customer service and support centers worldwide, and to invest in product and process R&D. Certain of our competitors, especially 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 increasingly dominate 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. 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.

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

Non-U.S. sales accounted for approximately 94% of total revenue in the December 2010 quarter, 91% of total revenue in fiscal year 2010, 85% of total revenue in fiscal year 2009, and 83% in fiscal year 2008. We expect that international sales will continue to account for a substantial portion 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;
- global economic and political conditions;
- changes in currency controls;

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- differences in the enforcement of intellectual property and contract rights in varying jurisdictions;
- our ability to respond to customer 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. export restrictions;
- 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 in all necessary locations for the successful operation of our business.

Certain international sales depend on our ability to obtain export licenses from the U.S. government. Our failure or inability to obtain such licenses would substantially limit our markets and severely restrict 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 potential significant growth for our business. As the business volume between China and the rest of the world grows, there is inherent risk, based on the complex relationships among China, Taiwan, Japan, and the United States, that political and diplomatic influences might lead to trade disruptions; this would adversely affect our business with China and/or Taiwan and perhaps the entire Asia Pacific region. A significant trade disruption in these areas could have a materially adverse impact on our future revenue and profits.

We are potentially exposed to adverse as well as beneficial 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 related to certain of our revenues denominated in Japanese yen and Euros, as well as certain of our spares and service contracts, Euro denominated expenses, and expenses related to our non-U.S. sales and support offices that are denominated in the related countries' local currency.

We currently enter into foreign exchange forward contracts to minimize the short-term impact of the foreign currency exchange rate fluctuations on Japanese yen-denominated revenue and monetary assets and liabilities, Euro-denominated expenses and monetary assets and liabilities, as well as monetary assets and liabilities denominated in Swiss francs and Taiwanese dollars. We currently believe these are our primary exposures to currency rate fluctuation. We expect to continue to enter into hedging transactions, for the purposes outlined, in the foreseeable future. However, these hedging transactions may not achieve their desired effect because differences between the actual timing of customer acceptances and our forecasts of those acceptances may leave us either over- or under-hedged on any given transaction. Moreover, by hedging these foreign currency denominated revenues, monetary assets and liabilities with foreign exchange forward contracts, 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 assets and liabilities (other than those currency exposures previously discussed) and currently we do not enter into foreign exchange forward contracts to hedge these other foreign currency exposures. Therefore, we are subject to both favorable and unfavorable foreign currency exchange rate fluctuations to the extent that we transact business (including intercompany transactions) in other currencies.

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. This is an ongoing challenge due to intense competition for top talent, as well as fluctuations in industry economic conditions 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 and our ability to offer a challenging and rewarding work environment. We periodically evaluate our overall compensation 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.

We Rely Upon Certain Critical Information Systems for the Operation of Our Business

We maintain and rely upon certain critical information systems for the effective operation of our business. These information systems include telecommunications, the internet, our corporate intranet, various computer hardware and software applications, network communications, and e-mail. These information systems may be owned and maintained by us, our outsource providers or third parties such as vendors and contractors. These information systems are subject to attacks, failures, and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, hard drives, communication lines, and networking equipment. To the extent that these information systems are under our control, we have implemented security procedures, such as virus protection software and emergency recovery processes, to mitigate the outlined risks. However, security procedures for information systems cannot be guaranteed to be failsafe and our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business.

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 of deferred tax assets, in tax laws, or by material audit

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assessments. 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 governmental regulations related to the discharge or disposal of toxic, volatile or otherwise hazardous chemicals. We believe that we are generally in compliance with these regulations and that we have obtained (or will obtain or are otherwise addressing the need for) all environmental permits necessary to conduct our business. These permits generally relate to the disposal of hazardous wastes. Nevertheless, the failure to comply with present or future regulations could result in fines being imposed on us, require us to suspend production, or cease operations or cause our customers' to not accept our products. These regulations could require us to alter our current operations, to acquire significant additional equipment or to incur substantial other expenses to comply with environmental regulations. Our failure to control the use, sale, transport or disposal of hazardous substances could subject us to future liabilities.

If We Choose to Acquire or Dispose of 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 make acquisitions of complementary companies, products or technologies, such as our March 2008 acquisition of SEZ Holding AG ("SEZ"), or we may reduce or dispose of certain product lines or technologies that no longer fit our long-term strategies. Managing an acquired business, disposing of product technologies or reducing personnel entail 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 and potential loss of key employees or customers of acquired or disposed operations. There can be no assurance that we will be able to achieve and manage successfully any such integration of potential acquisitions, disposition of product lines or technologies, or reduction in personnel or that our management, personnel, or systems will be adequate to support continued operations. Any such inabilities or inadequacies could have a material adverse effect on our business, operating results, financial condition, and 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, and results of operations 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

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 and trends occurring globally or in any of our key sales regions;
- variations in our quarterly operating results and financial condition, including our liquidity;
- variations in our revenues, earnings or other business and financial metrics from forecasts by us or securities analysts, or from those experienced by other companies in our industry;
- announcements of restructurings, reductions in force, departure of key employees, and/or consolidations of operations;
- government regulations;
- developments in, or claims relating to, patent or other proprietary rights;
- technological innovations and the introduction of new products by us or our competitors;
- commercial success or failure of our new and existing products; or
- disruptions of relationships with key customers or suppliers.

In addition, the stock market experiences significant price and volume fluctuations. Historically, we have witnessed significant volatility in the price of our Common Stock due in part to the actual or anticipated movement in interest rates and the price of and markets for semiconductors. These broad market and industry 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

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Third parties may assert infringement, unfair competition, product liability, breach of contract, or other claims against us. From time to time, other parties 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 issues. We also face risks of claims from commercial and other relationships. In addition, our Bylaws and indemnity obligations provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from their service to Lam Research. 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. Moreover, although we seek to obtain insurance to protect us from claims and cover losses to our property, there is no guarantee that such insurance will fully compensate us for any losses that we may incur.

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 United States and foreign patents and pending patent applications. However, other parties may challenge or attempt to invalidate or circumvent any patents the United States or foreign governments issue to us or these governments may fail to issue patents for pending applications. Additionally, even when patents are issued, 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 or pending patent applications may be narrower than we expect or, in fact, provide no competitive advantages. Any of these circumstances could have a material adverse impact on our business if they relate to critical technologies.

Compliance with Federal Securities Laws, Rules and Regulations, as well As NASDAQ Requirements, has Become Increasingly Complex, and the Significant Attention and Expense We Must Devote to those Areas May Have an Adverse Impact on Our Business

Federal securities laws, rules and regulations, as well as NASDAQ rules and regulations, require companies to maintain extensive corporate governance measures, impose comprehensive reporting and disclosure requirements, set strict independence and financial expertise standards for audit and other committee members and impose civil and criminal penalties for companies and their chief executive officers, chief financial officers and directors for securities law violations. These laws, rules and regulations have increased, and in the future are expected to continue to increase, the scope, complexity and cost of our corporate governance, reporting and disclosure practices, which could harm our results of operations and divert management's attention from business operations. A failure to comply with these regulations could also have a material adverse effect on our business.

[Table of Contents](#)**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds****Repurchases of Company Shares**

On September 8, 2008, the Company announced that its Board of Directors had authorized the repurchase of up to \$250 million of Company common stock from the public market or in private purchases. While the repurchase program does not have a defined termination date, it may be suspended or discontinued at any time and will be funded using the Company's available cash. The Company temporarily suspended repurchases under the program during the December 2008 quarter. On February 2, 2010, the Board of Directors authorized the resumption of the repurchase program. The Company completed the repurchase of all amounts available under this share repurchase authorizations during the quarter ended September 26, 2010.

On September 10, 2010, the Company announced that its Board of Directors had authorized the repurchase of up to an additional \$250 million of Company common stock using the Company's available cash. 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. The repurchase program does not have a defined termination date, and it may be suspended or discontinued at any time. On December 6, 2010 the Company entered into a structured stock repurchase arrangement using general corporate funds. This arrangement includes terms that required the Company to make an up-front cash payment to the counterparty and will result in the receipt of either 1.5 million shares of Company stock or \$50.4 million in cash at the maturity of the agreement, at the option of the Company. As of December 26, 2010, the Company prepaid \$50.0 million under its structured stock repurchase arrangement, which expires on April 6, 2011. The Company recorded this payment as a component of additional paid in capital in the Company's Consolidated Balance Sheet as of December 26, 2010.

Repurchases under the repurchase program and net share settlements were as follows during the periods indicated:

<u>Period</u>	<u>Total Number of Shares Repurchased (1)</u>	<u>Average Price Paid Per Share</u> <small>(in thousands, except per share data)</small>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program</u>	<u>Amount Available Under Repurchase Program</u>
Amount available at June 27, 2010				\$130,693
Quarter Ending September 26, 2010	3,408	\$ 38.56	3,389	\$ —
Authorization of up to \$250 million - September 2010				\$250,000
September 27, 2010 - October 24, 2010	4	\$ 41.93	—	\$250,000
October 25, 2010 - November 21, 2010	84	\$ 45.11	—	\$250,000
November 22, 2010 - December 26, 2010	3	\$ 51.16	—	\$250,000
Total	3,499	\$ 38.73	3,389	

- (1) In addition to shares repurchased under Board authorized repurchase program and included in this column are 110,000 shares at a total cost of \$4.8 million which the Company withheld through net share settlements during the six months ended December 26, 2010 to cover 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 plans.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. (Removed and Reserved)**ITEM 5. Other Information**

None

ITEM 6. Exhibits

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

**LAM RESEARCH CORPORATION
SIGNATURES**

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

Date: February 3, 2011

LAM RESEARCH CORPORATION
(Registrant)

/s/ ERNEST E. MADDOCK
Ernest E. Maddock
Senior Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
*10.151	Amendment to Employment Agreement between Stephen G. Newberry and Lam Research Corporation, dated December 7, 2010.
*10.152	Amendment to Employment Agreement between Martin B. Anstice and Lam Research Corporation, dated December 7, 2010.
*10.155	Amended and Restated Employment Agreement between James W. Bagley and Lam Research Corporation, dated November 5, 2010.
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
32.1	Section 1350 Certification (Principal Executive Officer)
32.2	Section 1350 Certification (Principal Financial Officer)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation 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 in which executive officers of the Company are eligible to participate.

AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT (this "Amendment") is entered into effective this 7th day of December, 2010 (the "Effective Date"), by and between Lam Research Corporation, a Delaware corporation (the "Company"), and Stephen G. Newberry (the "Executive").

RECITALS

WHEREAS, the Executive and the Company (the "Parties") previously entered into an employment agreement effective July 1, 2009 (the "Employment Agreement" and, as amended hereby, the "Agreement"); and

WHEREAS, in order to address a revision to the title of the Executive, the Parties desire to amend the Employment Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

Section 1(a) of the Employment Agreement is amended and restated to read, in its entirety, as follows:

Position. During the Employment Period (as defined in Section 2(a) below), the Executive shall serve as the Vice Chairman and Chief Executive Officer of the Company, and in such capacity the Executive shall perform the duties and responsibilities as the Board of Directors of the Company (the "Board") may, from time to time, reasonably assign to Executive, in all cases to be consistent with Executive's offices and positions."

[Signature page follows]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement effective as of the day and year first written above.

LAM RESEARCH CORPORATION

By: /s/ Sarah A. O'Dowd
Name: Sarah A. O'Dowd
Title: Group Vice President, HR and Chief Legal Officer
Dated: December 7, 2010

/s/ Stephen G. Newberry
Stephen G. Newberry
Dated: December 7, 2010

AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT (this "Amendment") is entered into effective this 7th day of December, 2010 (the "Effective Date"), by and between Lam Research Corporation, a Delaware corporation (the "Company"), and Martin B. Anstice (the "Executive").

RECITALS

WHEREAS, the Executive and the Company (the "Parties") previously entered into an employment agreement effective July 1, 2009 (the "Employment Agreement" and, as amended hereby, the "Agreement"); and

WHEREAS, in order to address the appointment of the Executive as President of the Company, the Parties desire to amend the Employment Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

Section 1(a) of the Employment Agreement is amended and restated to read, in its entirety, as follows:

Position. During the Employment Period (as defined in Section 2(a) below), the Executive shall serve as President and Chief Operating Officer and in such capacity the Executive shall perform the duties and responsibilities as the Chief Executive Officer (the "CEO") may, from time to time, reasonably assign to the Executive, in all cases to be consistent with Executive's offices and positions."

[Signature page follows]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement effective as of the day and year first written above.

LAM RESEARCH CORPORATION

By: /s/ Stephen G. Newberry

Name: Stephen G. Newberry

Title: Chief Executive Officer

Dated: December 7, 2010

/s/ Martin B. Anstice

Martin B. Anstice

Dated: December 7, 2010

EMPLOYMENT AGREEMENT

Effective November 5, 2010

This Employment Agreement (the "Agreement") is made and entered into between James W. Bagley (the "Executive"), a Texas resident, and Lam Research Corporation, a Delaware corporation (the "Company").

R E C I T A L S

A. The Company and Executive previously entered into an employment agreement effective April 1, 2009, as amended effective July 1, 2009 (as amended, the "Original Agreement") and now desire to enter into this Agreement to supersede the Original Agreement effective as of November 5, 2010.

B. The Company and Executive desire to enter into this Agreement with respect to the Executive's employment with the Company.

In consideration of the mutual covenants herein contained, and in consideration of the employment of Executive by the Company, the parties agree as follows:

1. Duties and Scope of Employment.

(a) Position. During the Employment Period (as defined in Section 2 below), the Executive shall serve as the Chairman of the Company, and in such capacity the Executive shall perform the duties of chairman of the Board of Directors of the Company (the "Board") and periodically shall i) work with the Company's Chief Executive Officer and senior management team and ii) meet with customers and investors, as appropriate.

(b) Executive's Obligations. Executive shall comply with all of the Company's policies and procedures governing employment. During the Employment Period, the Executive shall not devote substantial business efforts and time to another for-profit enterprise other than his duties for Teradyne and Micron or any other activity that is pre-approved by the Board. The foregoing, however, shall not preclude the Executive from engaging in such activities and services as do not interfere or conflict with his responsibilities to the Company.

2. Employment Period.

(a) Term. The Company shall employ the Executive for the period commencing on November 5, 2010 and ending on March 31, 2012 (such period, the "Employment Period") on the terms and subject to the conditions set forth in this Agreement.

(b) Termination. The Employment Period and Executive's employment hereunder may be terminated by either party at any time and for any reason; provided that the party initiating such termination of employment will be required to give the other party at least 90 days advance written notice of any such termination of Executive's employment. Executive's termination of employment shall become effective at the end of the notice period; provided,

however, that the Company may specify that such termination date shall be a date prior to the end of 90 days if the Company pays Executive the amount of Base Compensation (as defined in Section 3) that Executive would have been paid through the end of a 90 day notice period in a single lump sum within 5 business days of the date that the Company specifies as the date of termination of Executive's employment.

(c) Termination Benefits. Notwithstanding any other provision of this Agreement except Section 2(b), the provisions of Section 5 exclusively shall govern Executive's rights upon termination of employment with the Company.

(d) Stockholder Action. The stockholders of the Company may fail to elect Executive to the Board. While that action may terminate Executive's tenure on the Board and relieve Executive of his obligations to serve as chairman of the Board as described in Section 1(a), it shall not terminate this Agreement or otherwise affect Executive's rights to compensation hereunder. During the Employment Period, the Company will i) recommend to the Nominating and Governance Committee and/or independent members of the Board that Executive be nominated to the Board, and ii) to the extent permitted by the Board and the proxies submitted by the stockholders, the Company shall exercise its proxies in such a manner as to secure Executive's election to the Board.

(e) Resignation from Board. Should Executive be a member of the Board at the time his employment with the Company terminates, Executive shall immediately tender his resignation as a Board member, which resignation shall be accepted, or not, in the Board's discretion.

3. Compensation and Benefits.

(a) Base Compensation. During the Employment Period, the Company shall pay Executive base compensation at the annual rate of \$415,000, payable in regular installments in accordance with the Company's usual payroll practices. In addition, Executive shall be entitled to such increases in Executive's base compensation, if any, as may be determined from time to time in the sole discretion of the Board. Executive's base compensation, as in effect from time to time, is hereinafter referred to as the "Base Compensation". During the Employment Period, the Executive shall serve as a member of Board without additional compensation.

(b) Bonus. Executive shall not be entitled to participate in any performance bonus plan offered by the Company.

(c) Deferred Compensation. Executive shall be entitled to participate in the Company's Executive Deferred Compensation Plan pursuant to the terms thereof.

(d) Benefits. During the Employment Period, the Executive shall be eligible to participate in the medical, dental and insurance benefit plans and compensation programs maintained by the Company of general applicability to other key executive of the Company ("Employee Benefits"), subject in each case to the generally applicable terms and conditions of the plan or program in question and to the determination of the Board or any committee administering such plan or program.

(e) Reimbursement of Business Expenses. The Company shall reimburse the Executive for all reasonable and necessary business expenses incurred by the Executive in the performance of his duties hereunder upon proper submission of expense reports in accordance with Company policies regarding such reimbursement. Reasonable and necessary business expenses shall include travel expenses between Executive's principal location of employment in Texas and Company headquarters as well as travel to other locations on Company business.

(f) Stock Option or other Equity-Based Grants. Executive shall not be entitled to receive any stock option grants or other equity based compensation except as may be granted to him in the discretion of the independent members of the Board. Executive has received stock option or other equity-based compensation grants separately from this Agreement. This Agreement shall not alter or affect those prior grants.

(g) Compensation as a Non-Employee Director. If Executive's employment terminates but Executive continues to serve as a member of the Board, he shall be entitled to receive the same compensation that non-employee directors receive.

(h) Administrative Support. During the Employment Period, the Company will provide Executive with administrative support comparable to his current support levels. This may either be provided by the Company directly or may be reimbursed by the Company pursuant to appropriately incurred expenses by the Executive.

4. Section 162(m). By virtue of the duties specified for Executive under this Agreement, Executive is not "executive officer" of the Company as defined in Rule 3b-7 of the rules promulgated under the Securities Exchange Act of 1934, as amended. However, if during the Employment Period the Executive is a "covered employee" as defined in Section 162(m)(3) of the Internal Revenue Code of 1986 (as amended)(the "Code"), the Executive agrees to allow the Company to use reasonable good faith efforts, to the extent reasonably practicable and not materially adverse to Executive, to structure payment of all amounts of Executive's compensation from the Company so as to avoid non-deductibility of any such amounts under Section 162(m) of the Code or any successor provision.

5. Termination Benefits.

(a) Accrued Rights. In the event of a termination of Executive's employment for any reason, Executive shall be entitled to receive the Accrued Rights. "Accrued Rights" shall mean: i) Base Compensation through the date of termination of employment, ii) reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy on or prior to the date of Executive's termination, and iii) such Employee Benefits, if any, as to which Executive may be entitled under the employee benefit plans of the Company in accordance with their terms.

(b) Deferred Compensation Plan Election. Should Executive have any sums in any of the Company's elective deferred compensation plans (collectively, the "EDCP") at the time of termination, he shall be entitled to delay receipt of those funds to the extent provided by the express written terms of the EDCP, and in accordance with the Executive's elections in effect at such time. The Company shall not exercise any right it may have under the EDCP, however

amended, to disburse funds to the Executive earlier than the period that he has properly selected under the EDCP unless the Company's failure to exercise such right would subject Executive to accelerated or additional taxes under the Code.

6. Successors.

(a) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the Company's obligations under this Agreement and agree expressly to perform such obligations in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive's Successors. The terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

7. Notice.

(a) General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by Federal Express or a comparable air courier company or when delivered to a Company email address. In the case of the Executive, notices sent by courier shall be addressed to him at the home address that he most recently communicated to the Company in writing. In the case of the Company, notices sent by courier shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Chief Legal Officer.

(b) Notice of Termination. Any notice of termination contemplated under Section 2(b) of this Agreement shall be communicated by a notice of termination to the other party hereto given in accordance with Section 7(a) of this Agreement.

8. Existing Confidentiality and Non-Compete Agreements. Executive represents and warrants i) that prior to the date hereof he has provided the Company with true and complete copies of any and all written confidentiality and/or non-compete agreements to which Executive is a party as of the date hereof (together with a written description of any such oral agreements), and ii) to the best of Executive's knowledge, full compliance with the terms of each such agreement will not materially interfere with Executive's duties hereunder (except to the extent that Executive reasonably may determine to absent himself from certain Company meetings and communication during the first year of the Employment Period). The Executive further covenants that he will not willfully and knowingly fail to fully abide by the terms of any and all such agreements and will work in good faith with the Company to avoid any breach thereof.

9. Arbitration.

At the option of either party, any and all disputes or controversies whether of law or fact and of any nature whatsoever arising from or respecting this Agreement shall be decided by arbitration under the rules of the American Arbitration Association in accordance with the rules and regulations of that Association with the exception of any claim for temporary, preliminary or permanent injunctive relief arising from or respecting this Agreement which may be brought by the Company in any court of competent jurisdiction irrespective of Executive's desire to arbitrate such a claim.

The arbitrator shall be selected as follows. In the event the Company and the Executive agree on one arbitrator, the arbitration shall be conducted by such arbitrator. If the parties cannot agree on an arbitrator, then an arbitrator shall be appointed by the Honorable Joseph Hart, retired judge of Travis County Superior Court, or, if the parties are unable to secure such appointment from Judge Hart, in any other manner mutually agreed to by the parties. If the parties cannot agree on the manner for appointing a single arbitrator, then a single arbitrator shall be appointed in a manner consistent with the rules of the American Arbitration Association.

Arbitration shall take place in Denton County, Texas, or any other location mutually agreeable to the parties. At the request of either party, arbitration proceedings will be conducted in the utmost secrecy; in such case all documents, testimony and records shall be received, heard and maintained by the arbitrators in secrecy under seal, available for the inspection only by the Company and the Executive and their respective attorneys and their respective experts who shall agree in advance and in writing to receive all such information confidentially and to maintain such information in secrecy unless and until such information shall become generally known. The arbitrator shall have the power and authority to decree any and all relief of an equitable nature including, but not limited to, such relief as a temporary restraining order, a temporary and/or permanent injunction, and shall also have the power and authority to award damages, with or without an accounting and costs, provided, that punitive damages shall not be awarded, and provided, further, that the Executive shall be entitled to reimbursement for his reasonable attorney's fees to the extent he prevails as to the material issues in such dispute. The decree or judgment of an award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

Reasonable notice of the time and place of arbitration shall be given to all persons, other than the parties, as shall be required by law, in which case such persons or those authorized representatives shall have the right to attend and/or participate in all the arbitration hearings in such a manner as the law shall require.

10. Benefits Upon a Change in Control. If a Change in Control occurs during the Employment Period, and an Involuntary Termination of Executive's employment occurs either in contemplation of such Change in Control or within twelve (12) months following a Change in Control, then within ten (10) days following the Executive's termination date (as specified pursuant to Section 2(b) of this Agreement): (a) the Company shall pay Executive a lump sum payment equal to twelve (12) months of Base Compensation (without giving effect to any salary reduction program currently in effect), and (b) the Executive will receive the benefits he qualifies for under the Executive Retiree Medical Benefit Plan, or if such plan has been terminated prior

to the Executive's termination date, within ten (10) days following the termination date the Company shall pay the Executive a lump sum amount equal to the present value of the benefits for which the Executive qualified prior to the termination of such plan. The present value of such benefits shall be determined actuarially based on the actual cost of replacing the benefits as of the termination date. For purposes of this Section 10, "occurring in contemplation of a Change in Control" means an Involuntary Termination occurring within one (1) month prior to an actual Change in Control. It shall also include any termination if the termination was a condition of a party other than the Company to entry into an agreement, the consummation of which would cause a Change in Control (an "Acquisition Agreement"), whether or not such person actually enters into such agreement. Finally, it shall also include any Involuntary Termination if the actions constituting grounds for Involuntary Termination were taken at the request or direction of a person who has entered into an Acquisition Agreement. For purposes of clarity, (1) the termination date applicable to the Involuntary Termination must occur in contemplation of a Change in Control or (2) notice of the Involuntary Termination, in accordance with Section 7, must be given or received by the Company, as applicable, within twelve (12) months following the Change in Control. Notwithstanding the foregoing, in the event of an Involuntary Termination occurring in contemplation of a Change in Control, if the Executive's termination date would otherwise have occurred prior to the Change in Control, the Executive's termination date shall take place on the date of the Change in Control.

11. Definitions.

(a) Change in Control. "Change in Control" shall mean the occurrence of any of the following events:

(i) Any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, but excluding any person or group as such terms is used in Rule 13d-1(b) under the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13-d-3 under said Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the effective date of this Agreement, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company);

(iii) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior hereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding

immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets (other than to a subsidiary or subsidiaries); or

(iv) Any other event as determined by the independent members of the Board, in the sole discretion of the independent members of the Board.

(b) Involuntary Termination. "Involuntary Termination" shall mean:

- (i) a material reduction of the Executive's duties or responsibilities (other than for Cause or as a result of death or Disability);
- (ii) a material reduction in the Executive's Base Compensation and benefits package, other than a change in Executive's benefits package that continues to provide Executive with comparable benefits to those enjoyed prior to the change;
- (iii) the relocation of the Company's principal executive office to a location more than fifty (50) miles from its present location but only if the Executive is required to change his principal place of employment to such new location;
- (iv) any termination of the Executive's employment by or at the request of the Company other than for Cause, Disability or death;
- (v) the failure of the Company to obtain the assumption of this Agreement by any successors contemplated in Section 6 herein; or
- (vi) any material breach by the Company of any material provision of this Agreement;

subject to the following: (A) None of the foregoing actions shall constitute Involuntary Termination if the Executive has agreed thereto. (B) Except with respect to an event described in Section 11(b)(iv), the foregoing actions shall constitute Involuntary Termination only if and to the extent that (x) within 90 days of the occurrence of the events giving rise to an Involuntary Termination, the Executive provides written notice to the Company setting forth in reasonable detail such facts which Executive believes constitute Involuntary Termination, (y) any circumstances constituting Involuntary Termination remain uncured for a period of thirty (30) days following the Company's receipt of such written notice, and (z) the termination date occurs within one hundred and eighty (180) days following the initial existence of the event giving rise to an Involuntary Termination.

(c) Cause. "Cause" shall mean: (1) Executive's willful and continued failure to perform the duties and responsibilities of his position after there has been delivered to Executive a written demand for performance from the Board which describes the basis for the Board's belief that Executive has not substantially performed his duties and responsibilities and provides Executive with thirty (30) days to take corrective action; (2) Any act of personal dishonesty knowingly taken by Executive in connection with his responsibilities as an employee of the Company with the intention or reasonable expectation that such action may result in

substantial financial enrichment of Executive; (3) Executive's conviction of, or plea of guilty or nolo contendere to, a felony; (4) a willful and knowing act by the executive which constitutes gross misconduct; or (5) A willful breach of a material provision of this Agreement by the Executive. Termination for Cause shall not be deemed to have occurred unless, by the affirmative vote of all of the members of the Board (excluding the Executive and any person who reports to the Executive, if applicable), at a meeting called and held for that purpose (after reasonable notice to the Executive and his counsel and after allowing the Executive and his counsel to be heard before the Board), a resolution is adopted finding that in the good faith opinion of such Board members the Executive was guilty of conduct set forth in (1), (2), (3), (4) or (5) of this Section 11(c), specifying the particulars thereof.

(d) Disability. "Disability" shall mean that the Executive is unable to engage in any substantial gainful activity by reasons of any readily determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuing period of not less than twelve (12) months. A Disability must be certified by an approved Company physician.

12. Excise Tax on Payments. Notwithstanding anything to the contrary contained herein, in the event that any payment by the Company to or for the benefit of the Executive, whether paid or payable, would be subject to the excise tax imposed by Section 4999 of the Code or any comparable federal, state, or local excise tax (such excise tax, together with any interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall receive either the full severance amount or a lesser amount that does not trigger an excise tax, whichever produces a greater after-tax benefit to the Executive, as determined by the Company.

13. Miscellaneous Provisions.

(a) No Duty to Mitigate. Provided that Executive fully performs his obligations under this Agreement, the Executive shall not be required to mitigate the amount of any payment contemplated by this Agreement, nor shall any such payment be reduced by any earnings that the Executive may receive from any other source.

(b) Waiver. No provisions of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Whole Agreement; Amendment. This Agreement and the documents expressly referred to herein represent the entire agreement of the parties with respect to the matters set forth herein. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto. Nothing herein affects the continued enforceability of either the Original Agreement, or the Company's Employment, Confidential Information and Invention Assignment Agreement previously executed by the Executive. For

the avoidance of doubt, the Original Agreement shall be superseded by this Agreement effective November 5, 2010.

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the state of Texas. Payments made hereunder shall be made under the laws of the state of Executive's residence at the time such payment is delivered to Executive.

(e) Severability. If any provision of this Agreement is determined to be invalid or unenforceable, the Agreement shall remain in full force and effect as to the remaining provisions, and the parties shall replace the invalid or unenforceable provision with one which reflects the parties' original intent in agreeing to the invalid/unenforceable one.

(f) No Assignment of Benefits. Except as otherwise provided herein, the rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection (f) shall be void.

(g) Withholding Taxes. The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(h) Section 409A of the Code. Notwithstanding anything herein to the contrary, (i) if at the time of the Executive's termination of employment with the Company, the Company has determined that the Executive is a "specified employee" as defined in Section 409A of the Code and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Executive) until the date that is six months following the Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code) and (ii) if any other payments or benefits due to the Executive hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or benefits shall be deferred if deferral will avoid such acceleration or additional tax, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, reasonably determined by the Board, that does not cause such an accelerated or additional tax and that preserves, to the greatest extent possible, the value (both in amount and considering promptness of payment), of such payments or other benefits to the Executive. In the event that payments under this Agreement are deferred pursuant to this Section 13(h) in order to prevent any accelerated tax or additional tax under Section 409A of the Code, then such payments shall be paid at the time specified in this Section 13(h) without interest. The Company shall consult with the Executive in good faith regarding the implementation of the provisions of this Section 13(h); provided, that neither the Company nor any of its employees or representatives shall have any liability to the Executive with respect thereto. For purposes of Section 409A of the Code, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate

payments, and references herein to the Executive's "termination of employment" shall refer to Executive's separation of services with the Company within the meaning of Section 409A of the Code. Notwithstanding anything to the contrary herein, except to the extent any expense, reimbursement or in-kind benefit provided pursuant to this Agreement does not constitute a "deferral of compensation" within the meaning of Section 409A of the Code: (x) the amount of expenses eligible for reimbursement or in-kind benefits provided to the Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to the Executive in any other calendar year, (y) the reimbursements for expenses for which the Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred, and (z) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.

(i) Assignment by Company. The Company may assign its rights under this Agreement to an affiliate, and an affiliate may assign its rights under this Agreement to another affiliate of the Company or to the Company, provided, however, that no assignment shall be made if the net worth of the assignee is less than the net worth of the Company at the time of assignment. In the case of any such assignment, the term "Company" when used in a section of this Agreement shall mean the corporation that actually employs the Executive.

(j) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

(k) Survival of Obligations. Except as otherwise described herein, the obligations of section 4, 5, 6, 7, 8, 9 and 13 shall survive termination of this Agreement. In the event that an Acquisition Agreement is entered into during the Employment Period, Sections 10, 11 and 12 of this Agreement shall survive with regard to that Change in Control.

(l) Company Release. As a condition to the Company's obligations pursuant to Section 10 of this Agreement, the Executive agrees to execute a release of claims against the Company (the "Release"), substantially in the form attached hereto as Exhibit A, by the sixtieth (60th) day following the Executive's termination date. If the Company has not received an irrevocable Release by the sixtieth (60th) day following the termination date, the Company shall be under no obligation to make payments or provide benefits under this Agreement; provided such sixty (60) day period shall be tolled during the pendency of any arbitration proceeding under this Agreement. In the event one or more of the provisions of the Release should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of the Release, and the Release shall be construed as if such invalid, illegal or unenforceable provision had never been contained therein.

IN WITNESS WHEREOF, the parties have executed this Agreement.

LAM RESEARCH CORPORATION

By: /s/ Sarah A. O'Dowd
Sarah A. O'Dowd
Its: Group Vice President, Human Resources
and Chief Legal Officer

DATED: January 27, 2011

/s/ James W. Bagley
James W. Bagley

DATED: January 27, 2011

EXHIBIT A

COMPANY RELEASE



LAM RESEARCH CORPORATION RELEASE

This Release (“Release”) constitutes a binding agreement between you, **[EMP NAME]**, Lam Employee No. **[EE I.D.]**, and Lam Research Corporation (“Lam” or “the Company”). Please review the terms carefully. We advise you to consult with an attorney concerning its terms.

1. This Release is provided to Lam pursuant to an Employment Agreement (your “Agreement”) between you and Lam. You understand that if you choose not to sign this Release, as provided in your Agreement Lam has no obligation to make any payments or provide any benefits provided in your Agreement.

2. You understand that your obligations under the Confidential Information and Invention Assignment Agreement, or similarly titled agreement, you signed at the beginning of your employment with Lam are ongoing and binding and survive the termination of your employment with Lam, regardless of whether you sign this Release.

3. If you agree to this Release, you will be eligible to receive the payments and benefits provided in your Agreement. You must sign and return this Release, and it must become irrevocable (as discussed in Sections 4.E. and 8 below), within sixty (60) days of your termination date (as detailed in your Agreement). You may, at your discretion, sign and return the Release sooner. You are hereby advised to consider the terms of this Release and consult with an attorney of your choice prior to executing this Release. Lam is under no obligation to pay any amounts or provide any benefits under your Agreement until such release is irrevocable. Lam will make such payments and provide such benefits under your Agreement as soon as practicable, in accordance with the terms of your Agreement and in accordance with IRC Section 409A and accompanying Treasury Regulations (although Lam makes no representation about any specific tax treatment applicable to you). Neither Lam nor the Executive shall have the right to accelerate or defer the delivery of any payments or provision of any benefits except as specifically permitted or required by Section 409A.

4. In exchange for and in consideration of the payments and benefits provided for in your Agreement, you agree to, and agree to abide by, the following terms:

- A. Release. You hereby waive and release, and promise never to assert, any and all claims, except workers compensation or unemployment compensation claims, that you have, or may have at any time, against Lam and its predecessors, subsidiaries, related entities, and their officers, directors, shareholders, agents, attorneys, employees, benefit plans, successors, or assigns (collectively “Released Parties”) at all or, specifically, arising from or related to your employment with Lam and/or the termination of your employment with Lam. These claims include, but are not limited to, all claims arising under federal, state, and/or local statutory or common law, including, but not limited to, claims of wrongful or constructive discharge or demotion, breach of contract (written, oral or implied), breach of the covenant of good faith and fair dealing, violation of public policy, defamation, personal injury, emotional distress, claims under Title VII of the 1964 Civil Rights Act, as amended, the California Fair Employment and Housing Act (or comparable provision under any other state’s law), the Equal Pay Act of 1963, California Labor Code Section 1197.5 (or comparable provision under any other state’s law), the Age Discrimination in Employment Act of 1967, as amended, the Older Workers Benefit Protection Act (OWBPA), the Americans with Disabilities Act (ADA), the Civil Rights Act of 1866, the Family and Medical Leave Act (FMLA), the Worker Adjustment and Retraining Notification (WARN) Act, California Labor Code Section 1400 et seq., and any other laws, regulations, or ordinances relating to employment or employment discrimination, and the laws of contract and tort, to the full extent permitted by law. You are, through this Release, releasing the Company from any and all claims you may have against the Company, including claims under the Age Discrimination in Employment Act of 1967, 29 U.S.C. §621, et seq (ADEA) with the exception of (i) your right to receive the payments provided for in, or to enforce, your Agreement and (ii) any claims you may have pursuant to any written agreement, the Company’s certificate of incorporation or bylaws, or as mandated by statute, to indemnification as a director or officer of the Company; further, rights or claims under the Age Discrimination in Employment Act that may arise after the date this Agreement is executed are not waived.
- B. Release of Unknown Claims. You agree to waive and release and promise never to assert any claims or potential claims that you might have against the Released Parties, whether or not you know or might have reason to know of such claims or potential claims or of the facts potentially giving rise to any such claims or potential claims. Specifically, you agree to waive, and by executing this Release do waive, your rights under section 1542 of the Civil Code of California, or comparable provision of another state’s law, which states:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known to him or her must have materially affected his or her settlement with the debtor.

- C. Acknowledgment of 21-Day Consideration Period: If you are 40 years of age or older, you acknowledge and agree that you have been given at least 21 days to consider the terms of this Release before signing it¹. You knowingly and voluntarily waive the remainder of the 21-day consideration period, if any, following the date (as indicated below) you sign this Release. You affirm that you have not been asked by the Company to shorten your time period for consideration of whether to sign this Release. You affirm that the Company has not threatened to withdraw or alter the payments or benefits due to you prior to the expiration of the 21-day period nor has the Company provided different terms to you because you have decided to sign this Release prior to the expiration of the 21-day consideration period. You understand that by your having waived some portion of the 21-day consideration period, the Company may expedite the processing of some of the payments or benefits provided to you in reliance upon your signing this Release.
- D. No Re-Start of Consideration Period: You agree that any changes to this Release or to the payments or benefits and terms offered or that may be offered to you after your initial receipt of this Release, whether any such changes (individually or collectively) are material or immaterial, do not and shall not restart the running of the consideration period.
- E. Right to Revoke: You understand that if you sign this Release, you can change your mind and revoke it within seven days after signing it by returning it with written revocation notice to the Company in the manner described in the notice provision of your Agreement. You understand that the release and waiver set forth above will not be effective until after this seven-day period has expired.
- F. Binding Agreement: You understand that following the seven-day revocation period, this Release will be final and binding. You promise that you will not pursue any claim that you have settled by this Release. If you break this promise, you agree to pay all of the Company's costs and expenses (including reasonable attorneys' fees) related to the defense of any claims, except this promise not to sue does not apply to claims that you may have under the OWBPA and the ADEA. Although you are releasing claims that you may have under the OWBPA and the ADEA, you understand that you may challenge the knowing and voluntary nature of this release under the OWBPA and the ADEA before a court, the Equal Employment Opportunity Commission (EEOC), the National Labor Relations Board (NLRB), or any other federal, state or local agency charged with the enforcement of any employment laws. You understand, however, that if you pursue a claim against the Company under the OWBPA and/or the ADEA, a court has the discretion to determine whether the Company is entitled to restitution, recoupment, or set off (hereinafter "reduction") against a monetary award obtained by you in the court proceeding. A reduction never can exceed the amount you recover, or the consideration you received for signing this Release, whichever is less. You also recognize that the Company may be entitled to recover costs and attorney's fees incurred by the Company as specifically authorized under applicable law. You further understand that nothing in this Release generally prevents you from filing a charge or complaint with or from participating in an investigation or proceeding conducted by the EEOC, NLRB, or any other federal, state or local agency charged with the enforcement of any employment laws, although by signing this Release you are waiving your right to individual relief based on claims asserted in such a charge or complaint. Nothing in this Agreement shall be construed to waive any right that is not subject to waiver by private agreement under federal, state or local laws, such as claims for workers compensation or unemployment benefits.
- G. Authorization for Deductions from Paychecks and Other Payments. You hereby authorize Lam to deduct and withhold from your paychecks and from any other payments of cash compensation due to you, from the date of this Release forward, any and all amounts you may, from time to time, owe to Lam for any reason, including (without limitation) loans or advances to you, reimbursement of paid but unvested signing or relocation bonuses, amounts due under a promissory note, taxes or tax withholding paid or to be paid by Lam on your behalf. If you owe Lam monies as documented in a promissory note or other written agreement, the repayment terms of that document will apply.
- H. Confidentiality of Terms of this Release. You agree not to disclose to any other person or entity any information regarding the terms of this Release, or the fact of its existence, or the amounts of any payments or benefits made to or provided to you, except that you may disclose such information to your immediate family (spouse, children, or parents), attorney, accountant, or other professional advisor to whom you must make the disclosure in order for such person to render professional services to you, or as you otherwise may be compelled by law. You will instruct any such persons to

¹ Insert 45 day Consideration Period in circumstances required by law.

whom you make such disclosures, however, to maintain the confidentiality of such information, consistent with your obligations to maintain its confidentiality hereunder.

- I. **Non-Solicitation.** You agree not to solicit or induce any current Lam employee, contractor or consultant to leave Lam's employment or discontinue his or her relationship with Lam, either to commence employment or a relationship with another company or otherwise, on the terms set forth in your Agreement.
- J. **Non-Disparagement.** You hereby agree that you will not disparage, criticize, slander, or libel Lam or any of its products, technologies, policies, actions, employees, officers, or agents, to any third party or person, including without limitation any supplier, customer, or prospective customer or business partner of Lam.

5. **To accept this Release, please sign and date it below and provide it to the Company in the manner described in the notice provision of your Agreement.** If your Release is not executed, returned and irrevocable within 60 days from the termination date (as defined in your Agreement), the offer of the payments and benefits described in your Agreement shall automatically expire and this offer shall be deemed revoked.

6. In the event that you breach any of your obligations under this Release or as otherwise imposed by law, Lam will be entitled to recover the payments and benefits paid under your Agreement and to obtain all other relief provided by law or equity. Lam's rights and remedies arising hereunder are cumulative of any and all other rights or remedies Lam may have in the event of a breach of this Release by you.

7. By signing this Release, you acknowledge that you have had the opportunity to review this Release carefully with an attorney of your choice concerning its terms and effect, and that the waivers, settlement, and releases made herein are knowing, voluntary, informed, and consensual.

8. You understand that once you have signed this Release, you have an additional seven (7) days to revoke your acceptance by submitting a written notice of your revocation to the Company in the manner described in the notice provision of your Agreement . If you do not revoke your acceptance within seven (7) days of your acceptance, the Release will be deemed effective, binding and enforceable. **Please note that this means your executed Release must be received by the Chief Legal Officer of the Company, within 53 days of termination date (as defined in your Agreement) or the Company shall be under no obligation to make the payments or provide the benefits under your Agreement.**

9. This Release shall be construed and enforceable in all respects pursuant to California law, notwithstanding conflict of laws considerations or the preference, policy or law of any other jurisdiction or forum. Any dispute or action arising from or related to this Release shall be brought in federal or California state court located in the County of Santa Clara, California, and in no other jurisdiction or venue. The invalidity or unenforceability of any provision(s) of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

///

I, THE UNDERSIGNED, HAVE BEEN ADVISED IN WRITING THAT I HAVE HAD AT LEAST TWENTY-ONE (21) DAYS TO CONSIDER THIS RELEASE AND TO CONSULT WITH AN ATTORNEY CONCERNING ITS TERMS AND EFFECT PRIOR TO EXECUTING THIS RELEASE.

I, THE UNDERSIGNED, HAVE READ THIS RELEASE, UNDERSTAND ITS TERMS, AND UNDERSTAND THAT I ENTER THIS RELEASE INTENDING TO AND DO WAIVE, SETTLE AND RELEASE ALL CLAIMS I HAVE OR MIGHT HAVE AGAINST LAM RESEARCH CORPORATION TO THE FULL EXTENT PERMITTED BY LAW. I SIGN THIS RELEASE VOLUNTARILY AND KNOWINGLY.

ACKNOWLEDGED, UNDERSTOOD AND AGREED

ON BEHALF OF LAM RESEARCH CORPORATION:

[EMP NAME]

Stephen G. Newberry
President and Chief Executive Officer

Date: _____

Date: _____

RULE 13a-14(a)/15d-14(a) CERTIFICATION (PRINCIPAL EXECUTIVE OFFICER)

I, Stephen G. Newberry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lam Research Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 3, 2011

/s/ Stephen G. Newberry
Stephen G. Newberry
Chief Executive Officer and Vice Chairman

RULE 13a-14(a)/15d-14(a) CERTIFICATION (PRINCIPAL FINANCIAL OFFICER)

I, Ernest E. Maddock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lam Research Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 3, 2011

/s/ Ernest E. Maddock

Ernest E. Maddock

Senior Vice President, Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

SECTION 1350 CERTIFICATION (PRINCIPAL EXECUTIVE OFFICER)

In connection with the Quarterly Report of Lam Research Corporation (the "Company") on Form 10-Q for the fiscal period ending December 26, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen G. Newberry, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 3, 2011

/s/ Stephen G. Newberry
Stephen G. Newberry
Chief Executive Officer and Vice Chairman

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liability of that section. Such certification will not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

SECTION 1350 CERTIFICATION (PRINCIPAL FINANCIAL OFFICER)

In connection with the Quarterly Report of Lam Research Corporation (the "Company") on Form 10-Q for the fiscal period ending December 26, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ernest E. Maddock, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 3, 2011

/s/ Ernest E. Maddock

Ernest E. Maddock

Senior Vice President, Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liability of that section. Such certification will not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

