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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 25, 2001 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 000-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**94-2634797**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4650 Cushing Parkway
Fremont, California 94538
(Address of principal executive offices including zip code)

(510) 659-0200
(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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ],

As of March 25, 2001 there were 123,623,978 shares of Registrant's Common Stock outstanding.

LAM RESEARCH CORPORATION
TABLE OF CONTENTS

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	March 25, 2001	June 25, 2000 (1)
	(unaudited)	

Assets		
Cash and cash equivalents	$ 190,758	$ 70,056
Short-term investments	254,110	301,666
Accounts receivable, net	362,300	323,935
Inventories	328,429	227,169
Prepaid expenses and other assets	32,066	22,001
Deferred income taxes	76,508	76,508
Total Current Assets	1,244,171	1,021,335
Property and Equipment, net	133,115	119,192
Restricted cash	60,348	60,348
Deferred income taxes	12,317	12,317
Other assets	44,494	31,645
Total Assets	$ 1,494,445	$ 1,244,837
Liabilities and Stockholders' Equity		
Trade accounts payable	$ 118,780	$ 76,648
Accrued expenses and other current liabilities	186,538	203,476
Current portion of long-term debt and capital lease obligations	20,806	7,632
Total Current Liabilities	326,124	287,756
Long-term debt and capital lease obligations, less current portion	312,163	321,657
Total Liabilities	638,287	609,413
Temporary equity	52,898	--
Preferred stock: 5,000 shares authorized; none outstanding	--	--
Common Stock, at par value of $0.001 per share Authorized -- 400,000 shares; issued and outstanding 123,624 shares at March 25, 2001 and 124,389 shares at June 25, 2000	124	124
Additional paid-in capital	457,799	441,949
Treasury stock	(28,629)	(26,438)
Accumulated other comprehensive loss	(12,706)	(7,501)
Retained earnings	386,672	227,290
Total Stockholders' Equity	803,260	635,424
Total Liabilities and Stockholders' Equity	$ 1,494,445	$ 1,244,837

(1) Derived from June 25, 2000 audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

Three Months Ended		Nine Months Ended	
March 25, 2001	March 26, 2000	March 25, 2001	March 26, 2000

Total revenue	$ 421,525	$ 326,349	$ 1,347,898	$ 856,551
Cost of goods sold	248,541	182,212	744,747	485,927
Cost of goods sold - on restructuring recovery	--	(849)	--	(849)
Gross margin	172,984	144,986	603,151	371,473
Research and development	58,791	45,881	174,044	125,429
Selling, general and administrative	55,167	41,147	170,269	113,647
Restructuring recovery	--	(18,083)	--	(18,083)
Purchased technology for research and development.	--	--	8,000	7,460
Operating income	59,026	76,041	250,838	143,020
Other income, net	4,429	1,883	11,994	5,013
Income before taxes	63,455	77,924	262,832	148,033
Income tax expense	19,037	10,909	78,857	19,628
Net income	$ 44,418	$ 67,015	$ 183,975	$ 128,405
Net income per share				
Basic	$ 0.36	$ 0.55	$ 1.49	$ 1.07
Diluted	$ 0.33	$ 0.48	$ 1.36	$ 0.97
Number of shares used in per share calculations:				
Basic	123,182	122,646	123,693	119,747
Diluted	141,901	145,931	142,400	131,752

See Notes to Condensed Consolidated Financial Statements.

LAM RESEARCH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended	
	March 25, 2001	March 26, 2000
Cash flows from operating activities:		
Net income	$ 183,975	$ 128,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,802	33,822
Restructuring recovery	--	(18,932)
Purchased technology for research and development	--	7,460
Change in working capital accounts	(121,775)	(112,346)
Tax benefit - stock options	69,020	--
Net cash provided by operating activities	173,022	38,409
Cash flows from investing activities:		

Capital expenditures, net	(54,565)	(38,970)
Purchases of short-term investments	(5,724,308)	(1,805,611)
Sales/maturities of short-term investments	5,771,864	1,785,265
Strategic Investments	(6,000)	--
Other, net	(15,902)	(11,874)
Net cash used in investing activities	(28,911)	(71,190)
Cash flows from financing activities:		
Treasury stock repurchases	(45,070)	(5,146)
Reissuance of treasury stock	18,014	13,575
Issuance of common stock, net	--	39,034
Principal payments on long-term debt and capital lease obligations	(6,091)	(26,863)
Net proceeds from the issuance of short and long term debt	13,483	8,685
Net cash used in financing activities	(19,664)	29,285
Effect of exchange rate changes on cash	(3,745)	(7,173)
Net increase (decrease) in cash and cash equivalents	120,702	(10,669)
Cash and cash equivalents at beginning of period	70,056	37,965
Cash and cash equivalents at end of period	$ 190,758	$ 27,296

See Notes to Condensed Consolidated Financial Statements.

LAM RESEARCH CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 25, 2001
(Unaudited)

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles 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 (the "Company" or "Lam") for the fiscal year ended June 25, 2000, which are included in the Annual Report on Form 10-K, File Number 0- 12933.

NOTE B -- RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition: Revenue from sales of the Company's equipment is generally recorded upon shipment. Estimated costs to be incurred by the Company related to equipment installation and warranty fulfillments are accrued at the date of shipment. Service revenue is recognized when services are provided. In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements of all public registrants. SAB 101 may require that some or all of that revenue not be recognized until the product is accepted by the customer, an event which generally does not happen until sometime after shipment has occurred. Compliance with SAB 101 therefore might delay our recognition of some revenue, compared to our current practice, for one or more quarters.

Changes in the Company's revenue recognition policy resulting from the interpretation of SAB 101 will be reported as a change in accounting principle. The impact of this change, if any, on previously recognized revenue will result in a cumulative adjustment to retained earnings as of the beginning of the fiscal year the Company adopts SAB 101. The SEC has delayed the required implementation date, which for the Company, will be the fourth quarter of fiscal 2001. Previously reported unaudited fiscal year 2001 quarterly operating results will be restated to reflect the impact, if any, of SAB 101 on the Company's revenue recognition policy. In October 2000, the SEC issued implementation guidance in the form of "Frequently Asked Questions". The Company is still in the process of assessing the impact of SAB 101 on its consolidated financial statements based on the SEC's most recently issued guidance.

Derivative Instruments and Hedging. On July 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings (fair value hedges) or recognized in other comprehensive income until the hedged item is recognized in earnings (cash flow hedges). The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The adoption of SFAS 133 did not have a material impact on the Company's consolidated financial position or operating results.

Employee Stock Plans: In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No.44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation -- an Interpretation of APB Opinion No. 25". FIN 44 is intended to clarify the application of APB Opinion No. 25 by providing guidance regarding among other issues: the definition of an employee for purposes of applying APB Opinion No. 25; the criteria for determining whether a plan qualifies as a noncompensatory plan; the accounting consequence of various modifications to the terms of previously fixed stock options or awards; and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 was effective July 1, 2000. The adoption of FIN 44 did not have a material impact on the Company's consolidated financial position or results of operations.

Equity Derivatives in a Company's Own Stock: In November 2000, the FASB's Emerging Issues Task Force ("EITF") reached final consensuses on EITF Issue No. 00-19, "Determination of Whether Share Settlement is Within the Control of the Issuer" for purposes of applying EITF Issue No. 96-13, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock". EITF 00-19 addresses and clarifies whether specific contract provisions or other circumstances cause a net-share or physical settlement alternative to be within or outside the control of the issuer. EITF 96-13 addresses accounting for equity derivative contracts indexed to, and potentially settled in, a company's own stock by providing guidance for distinguishing between permanent equity, temporary equity and assets and liabilities. Under EITF 00-19, equity derivatives that were issued prior to September 20, 2000, and classified as permanent equity must meet certain criteria or be re-classified as temporary equity. To qualify as permanent equity all the following criteria must be met: the equity derivative contract must permit the company to settle in unregistered shares, the company must have sufficient authorized but unissued shares available to settle the contract, the contract must contain an explicit limit on the number of shares to be delivered in a share settlement, there can be no requirement in the contract to post collateral, there can be no "make whole" provisions in the contract and there can be no provisions in the contract that indicate the counterparty has rights that rank higher than those of a common shareholder.

Compliance with EITF 00-19 did not have a material impact on the Company's consolidated financial position but resulted in a reclassification from equity to temporary equity on the balance sheet.This reclassification is necessary because the put option contracts discussed in the Liquidity and Capital Resources section of Item 2, require that collateral be posted and require delivery of registered shares.

See Note E - - Stockholders' Equity for further discussion of compliance with EITF 00-19.

NOTE C -- INVENTORIES

	March 25, 2001	June 25, 2000
	(in thousands)	
Raw materials..................	$ 195,400	$ 153,721
Work-in-process................	71,500	53,221
Finished goods.................	61,529	20,227

	$ 328,429	$ 227,169

NOTE D -- PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

	March 25, 2001	June 25, 2000
	(in thousands)	
Manufacturing and other equipment..	$ 148,164	$ 128,508
Leasehold improvements............	91,339	79,226
Furniture and fixtures............	6,622	6,398
Computer equipment and software....	79,427	67,250
	325,552	281,382
Less allowance for depreciation and amortization................	(192,437)	(162,190)
	$ 133,115	$ 119,192

Certain amounts presented in the prior year have been reclassified to conform to the 2001 presentation.

NOTE E -- STOCKHOLDERS' EQUITY

Under the provisions of EITF Issue No. 00-19 (as discussed in Note B) for purposes of applying EITF Issue No. 96-13, the Company has reclassified $52.9 million from permanent equity to temporary equity. This amount represents the redemption value of the put option contracts the Company has entered into with independent third parties giving these third parties the right to sell to the Company 5.58 million shares of its Common Stock at a weighted average price of $9.48 per share. This reclassification is necessary because the put option contracts require that collateral be posted and require delivery of registered shares.

Furthermore, in accordance with the transition provisions of EITF No. 00-19, the Company will reclassify the fair value of its call and put options from permanent equity to an asset or liability account on June 24, 2001, if such call and put option contracts are still in place. Subsequent changes in fair value will be recorded in earnings. As of March 25, 2001, the fair value of the call and put options is $ 30.6 million, and would be recorded as an asset if the reclassification had been made as of March 25, 2001.

See the Liquidity and Capital Resources section of item 2, for discussion of the option contracts entered into by the Company.

NOTE F -- OTHER INCOME, NET

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

	Three Months Ended		Nine Months Ended	
	March 25, 2001	March 26, 2000	March 25, 2001	March 26, 2000
	(in thousands)			
Interest expense...............	$ (4,958)	$ (4,833)	$ (15,190)	$ (14,588)
Interest income................	7,164	6,557	23,940	18,179
Other..........................	2,223	159	3,244	1,422
	$ 4,429	$ 1,883	$ 11,994	$ 5,013

NOTE G -- NET INCOME PER SHARE

Basic net income per share is calculated using the weighted average number of shares of Common Stock outstanding during the period. For the three and nine months ended March 25, 2001, and the three months ended March 26, 2000, the diluted net income per share includes the assumed exercise of employee stock options and the assumed conversion of the convertible subordinated notes to common shares. For the nine months ended March 26, 2000, diluted net income per share includes the assumed exercise of employee stock options; the assumed conversion of the convertible subordinated notes to common shares was excluded from diluted net income per share because its effect would have been antidilutive.

The Company's basic and diluted net income per share amounts are as follows:

	Three Months Ended		Nine Months Ended	
	March 25, 2001	March 26, 2000	March 25, 2001	March 26, 2000
	(in thousands, except per share data)			
Numerator:				
Numerator for basic net income per share.............	$ 44,418	$ 67,015	$ 183,975	$ 128,405
Add: Interest expense on convertible subordinated notes, net of taxes..................	3,025	3,717	9,075	--
Numerator for diluted net income per share...........	$ 47,443	$ 70,732	$ 193,050	$ 128,405
Denominator:				
Basic net income per share -- average shares outstanding................................	123,182	122,646	123,693	119,747
Effect of potential dilutive securities:				
Convertible subordinated notes....................	10,587	10,596	10,587	--
Employee stock plans..............................	8,132	12,689	8,120	12,005
Diluted net income per share -- average shares outstanding and other potential common shares.....................................	141,901	145,931	142,400	131,752
Basic net income per share............................	$0.36	$0.55	$1.49	$1.07
Diluted net income per share..........................	$0.33	$0.48	$1.36	$0.97

NOTE H -- COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, are as follows:

	Three Months Ended		Nine Months Ended	
	March 25, 2001	March 26, 2000	March 25, 2001	March 26, 2000
	(in thousands)			
Net income	$ 44,418	$ 67,015	$ 183,975	$ 128,405
Foreign currency translation adjustment....................	(8,621)	(579)	(9,771)	(7,173)
Unrealized gain on financial instruments.....................	2,588	--	4,566	--
Comprehensive income	$ 38,385	$ 66,436	$ 178,770	$ 121,232

Accumulated other comprehensive loss of $12.7 million presented in the accompanying consolidated condensed balance sheets as of March 25, 2001 consists of an accumulated foreign currency translation adjustment loss of $17.3 million and a $4.6 million gain from activity related to derivatives classified as cash flow hedges held by the Company.

Accumulated other comprehensive loss presented in the accompanying consolidated condensed balance sheets as of

June 25, 2000 consists of an accumulated foreign currency translation adjustment.

NOTE I -- DERIVATIVE INSTRUMENTS AND HEDGING

On July 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as discussed in Note B.

In most countries, system sales are generally conducted in U.S. dollars while the sales of spare parts and services are generally conducted in the local country's currency. In Japan, the Company sells its systems and spare parts generally in Japanese Yen. Therefore, in the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency rate fluctuations.

The Company's policy is to ensure that material short term business exposure to foreign exchange risks are identified, measured and minimized using the most effective and efficient methods to eliminate or reduce such exposures. To protect against the reduction in value of forecasted Yen denominated cash flows resulting from sales by the Company's Japanese subsidiary to third-party customers, the Company has instituted a foreign currency cash flow hedging program. The Company purchases foreign currency forward contracts generally expiring within 12 months, and no later than 24 months, to hedge portions of its forecasted revenue denominated in Japanese Yen. These foreign currency forward contracts are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gain or loss recorded in other comprehensive income (a component of stockholders' equity) and subsequently recognized in earnings in the same period the hedged revenue is recognized. The Company does not use derivatives for trading purposes.

Effectiveness tests for foreign currency forward contracts entered into prior to October 2000, compare the foreign currency spot rate at inception to the current market spot rate. Subsequent hedges are tested for effectiveness by comparing the foreign currency forward rates at inception to the current market forward rate. The change reflects the Company's conclusion that under FAS 133 hedge effectiveness will not be impacted by including time value in hedge effectiveness testing, as the critical terms of the contract and the underlying, including maturity, are matched. For the three and nine month periods ended March 25, 2001, the Company recognized a net gain of $354,000 and $2,028,000 respectively, related to the time value excluded from the assessment of hedge effectiveness.

At March 25, 2001, the Company expects to reclassify the amount accumulated in other comprehensive income to earnings during the next twelve months due to the recognition in earnings of the hedged forecasted transactions.

If a cash flow hedge should be discontinued because it is probable that the original forecasted transaction will not occur, the net gain or loss in accumulated other comprehensive income will be reclassified into earnings as a component of other income and expense. No such amounts were recorded in earnings during the three and nine-month periods ended March 25, 2001.

The following table summarizes activity in other comprehensive income related solely to derivatives classified as cash flow hedges held by the Company during the period from June 26, 2000 through March 25, 2001.

	(in thousands)
Cumulative effect of adopting FAS 133..................	$ 494
Reclassified into income from other comprehensive income	(1,626)
Changes in fair value of derivatives, net..............	5,698
Other comprehensive income, net	$ 4,566

Additionally, the Company enters into foreign currency forward contracts to hedge the gains and losses generated by the remeasurement of foreign currency denominated intercompany receivables recorded on Lam Research U.S. books. These derivatives do not qualify for hedge accounting and therefore, the change in fair value of these derivatives are adjusted to fair value through income as a component of other income and expense and offset the change in fair value of the foreign currency denominated intercompany receivables.

NOTE J -- COMMITMENTS

During the second quarter of fiscal 2001, the Company entered into a five year Operating Lease Agreement ("the

Agreement"), relating to certain buildings at its Fremont, California campus, in order to obtain more favorable terms and to reduce the amount of the Company's obligation. As part of the Agreement, the Company is required to provide a guaranteed residual value of $27.5 million at the end of the lease term.

NOTE K -- LITIGATION

See Part II, item 1 for discussion of litigation.

NOTE L -- PURCHASED TECHNOLOGY FOR RESEARCH and DEVELOPMENT

During the second quarter of fiscal 2001, the Company purchased a portfolio of chemical mechanical planarization ("CMP") intellectual property rights and research and development technology from Strasbaugh. The Company recognized a one-time charge to income of $8.0 million for the purchase of in process research and development technology and recorded a $6.0 million investment in preferred stock and intangible assets. The Company accounts for its minority interest in Strasbaugh under the equity method and the intangible assets are amortized ratably over five years.

Income from the Company's investment in Strasbaugh was immaterial for the third quarter of fiscal 2001, and is reflected in other income, net, on the accompanying statements of income.

NOTE M - SUBSEQUENT EVENT

On April 11, 2001, the Company announced a plan to reduce global headcount by approximately 15% during the fourth quarter of fiscal 2001. The planned reduction in force is driven by the anticipated decline in the Company's revenues over the next six months due to the forecasted contraction of the semiconductor equipment market from calendar year 2000 levels.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

With the exception of historical facts, the statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and are subject to the Safe Harbor provisions created by that statute. Such forward-looking statements include, but are not limited to, statements that relate to our future revenue, product development, demand, acceptance and market share, competitiveness, royalty income, gross margins, levels of research and development and operating expenses, our management's plans and objectives for our current and future operations, and the sufficiency of financial resources to support future operations 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 those discussed below under the heading Risk Factors, and other documents we may file from time to time with the Securities and Exchange Commission, specifically our last filed Annual Report on Form 10-K for the fiscal year ended June 25, 2000. Such risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed herein 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 of information currently and reasonably known. We undertake no obligation to release any revisions to these forward-looking statements which may be made to reflect events or circumstances which occur after the date hereof or to reflect the occurrence or effect of anticipated or unanticipated events. This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes presented thereto on pages 6 to 11 of this Form 10-Q and the financial statements and notes in our last filed Annual Report on Form 10K for a full understanding of our financial position and results of operations for the three and nine month periods ended March 25, 2001.

RESULTS OF OPERATIONS

Total Revenue

Our total revenue for the three and nine months ended March 25, 2001 increased 29.2% and 57.4% respectively, compared to the corresponding periods in fiscal 2000. The increase in revenue for the three and nine month periods of fiscal 2001 compared to the corresponding periods in fiscal 2000 reflects the strong demand for our products which was driven by the expansion of the semiconductor industry in fiscal 2000 and early fiscal 2001.

During the third fiscal quarter of 2001, a slowing economy and a worldwide decline in demand for semiconductors resulted in excess capacity in the semiconductor industry and a severe contraction in demand for semiconductor manufacturing equipment. Our current outlook is for lower revenues in the next two quarters and potentially beyond, due to semiconductor manufacturers delaying or reducing capital expenditures for calendar year 2001.

The geographic breakdown of revenue was as follows:

	Three Months Ended		Nine Months Ended	
	March 25, 2001	March 26, 2000	March 25, 2001	March 26, 2000
North America.......	26%	23%	30%	30%
Europe..............	25%	32%	25%	28%
Asia Pacific........	37%	30%	31%	29%
Japan...............	12%	15%	14%	13%

Gross Margin

Our gross margin percentage decreased to 41.0% for the three month period ended March 25, 2001, compared to 44.4% for the corresponding period in the prior fiscal year. The decrease in our gross margin percentage is due to the significant level of customer requests for shipment delays within manufacturing lead times. These delays reduced sales volumes creating manufacturing inefficiencies and excess capacity.

The gross margin percentage for the nine month period ended March 25, 2001 increased to 44.7%, compared to 43.4% for the nine months ended March 26, 2000. The increase in the gross margin for the nine month period ended March 25, 2001 compared to the corresponding period in fiscal 2000 reflects the favorable impact of higher sales volume during the first and second quarters of fiscal 2001 and the efficiencies of our "lean" manufacturing techniques.

Research and Development

Research and Development ("R&D") expenses for the three and nine months ended March 25, 2001, were 28.1% and 38.8% higher than the year ago periods, respectively. However, as a percentage of revenue, R&D expenses were 13.9% and 12.9% of total revenue, respectively, for the three and nine months periods of fiscal 2001, compared with 14.1% and 14.6% for the three and nine month periods of fiscal 2000. The decrease in R&D expenses as a percent of revenue is mainly due to the increase in revenue for the three and nine month periods of fiscal 2001. The increase in R&D expenses in absolute dollars was a result of our continued investments in advanced etch and CMP/Clean applications and enhancements to our existing products, including developing the technology necessary to support smaller feature size, copper based devices and 300 mm wafers.

We believe that in order to remain competitive, we must continue to invest substantially in R&D. We expect R&D costs as a percent of revenue to increase in the next few quarters as sales volumes are anticipated to decline while investment in R&D programs is maintained at levels slightly below those of the fiscal third quarter.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses for the three and nine months ended March 25, 2001 were 13.1% and 12.6%, respectively, compared to 12.6% and 13.3%, respectively, of total revenue for the three and nine month periods in fiscal 2000. The increase as a percent of revenue for the three months ended March 25, 2001 reflects the decrease in our revenues due to the downturn in the equipment market. In response to the slowdown we implemented cost reduction measures such as reduced executive and director compensation during the third quarter of fiscal 2001.

SG&A expenses decreased as a percentage of revenue for the nine month period ended March 25, 2001 compared to the corresponding period in fiscal 2000, mainly due to the increased sales volume. The increase in SG&A expenses in absolute dollars for the nine month period of fiscal 2001 was largely a result of increased infrastructure related to higher sales, marketing and administrative support for our expanding business in prior quarters as well as higher incentive payments to our employees.

Restructuring Recovery

During the third quarter of fiscal 2000 we completed certain elements of our restructuring activities in accordance with our previously established and announced plans. As a result of the stronger than anticipated recovery of the semiconductor capital equipment market during fiscal year 2000, we were able to recover approximately $18.9 million of the restructuring charges recorded in prior periods.

Purchased Technology for R&D

During the second quarter of fiscal 2001, we purchased a portfolio of chemical mechanical planarization ("CMP") intellectual property rights from Strasbaugh. We recognized a one-time charge to income of $8.0 million for the purchase of in process research and development technology and recorded a $6.0 million investment in preferred stock and intangible assets. Our minority interest in Strasbaugh, is accounted for under the equity method and the intangible assets are amortized ratably over five years.

Reduction in Force

On April 11, 2001, we announced a plan to reduce global headcount by approximately 15% during the fourth quarter of fiscal 2001. The planned reduction in force is driven by the anticipated decline in our revenues over the next six months due to the forecasted contraction of the semiconductor equipment market from calendar year 2000 levels.

Tax Expenses

Income tax expenses were recorded using a 30% tax rate estimate based on our current revenue and profit outlook for fiscal 2001. Income tax expenses were recorded using a 14% rate assumption for the third fiscal quarter 2000 in accordance with an estimated tax rate of 13% for fiscal year 2000.

Transition to Single European Currency

During fiscal 1999, we established a team to address issues raised by the introduction of the Single European Currency ("Euro") for initial implementation as of January 1, 1999 and through the transition period to January 1, 2002. We met all related legal requirements by January 1, 1999, and we expect to meet all legal requirements through the transition period. We do not expect the cost of any related system modifications to be material and do not currently expect that the introduction and use of the Euro will materially affect our foreign exchange and hedging activities, nor will result in any material increase in transaction costs. We will continue to evaluate the impact of the introduction of the Euro; however, based on currently available information, management does not believe that the introduction of the Euro has or will have a material adverse impact on our financial condition or results of our operations.

LIQUIDITY AND CAPITAL RESOURCES

As of March 25, 2001, we had $505.2 million in cash, cash equivalents, short-term investments, and restricted cash compared with $432.1 million at June 25, 2000. As of March 25, 2001, we were in compliance with all our financial and other covenants. Our $100.0 million syndicated bank line of credit, against which we had no borrowings, expired in April 2001.

During the second quarter of fiscal 2001, we entered into a five year Operating Lease Agreement ("the Agreement"), relating to certain buildings at our Fremont, California campus. As part of the Agreement, we are required to provide a guaranteed residual value of $27.5 million at the end of the lease term.

Net cash provided by operating activities was $173.0 million for the nine months ended March 25, 2001. Cash provided by operating activities primarily resulted from net income of $184.0 million, non cash charges for depreciation and amortization of $41.8 million, and a tax benefit of $69.0 million related to tax deductions received for stock option exercises offset by net uses of working capital of $121.8 million. Significant use of working capital included increases in accounts receivable and inventories of $249.8 million and $103.1 million, respectively, offset by decreases in accounts payables and other liabilities of $24.1 million and proceeds from sales of accounts receivable of $211.4 million.

Net cash used in investing activities for the nine months ended March 25, 2001 was $28.9 million. Cash outflows stemmed primarily from net capital expenditures of $54.6 million, and the payment of $14.0 million to Strasbaugh for the purchase of technology and equity. Use of cash in investing activities was partially offset by the net sales of short-term investments of $47.6 million.

Net cash flows used in financing activities for the nine months ended March 25, 2001 were $19.7 million. We repurchased $45.1 million of common stock and reissued $18.0 million from treasury stock through our employee option and stock purchase programs. Additionally, we made principal payments on long-term debt and capital lease obligations of $6.1 million offset by proceeds from the issuance of short-term debt of $13.5 million.

During fiscal 1999, we entered into certain option transactions with independent third parties (the "third parties") for the purchase and sale of our common stock. Our Board of Directors authorized us to acquire from the third parties options to purchase up to 10.5 million shares of our common stock. These call options were acquired in order to offset the anticipated dilutive effect of a potential conversion into common stock of the Convertible Subordinated Notes (the "Notes") previously issued by us, and due September 2, 2002. As part of the program, the Board of Directors also authorized us to enter into put options with the same third parties covering up to 15.75 million shares of our common stock. We anticipated that the premiums we would receive over the course of the program from the sale of the put options to the third parties would offset in full the premium cost of our purchase of the call options from those same third parties. Consequently, we do not expect to exchange cash over the course of the program with the third parties in conjunction with our purchase of the call options.

Pursuant to this authorization described above, we have as of March 25, 2001 acquired call options to purchase 3.72 million shares of our Common Stock; the weighted average exercise price of these options is $11.29. The call options provide that our maximum benefit at expiration is $17.97 per option share (the difference between $29.26, which is the conversion price of the Notes, and the weighted average exercise price of the call options). We have also entered into put option contracts with the same third parties covering 5.58 million shares of our common stock, giving those third parties the right to sell to us shares of our Common Stock at a weighted average price of $9.48 per share. Pursuant to EITF 00-19 (see Note B) the redemption value of this put option, $52.9 million, has been reclassified to temporary equity.

The call and put options are European style options exercisable upon expiration; all of the options expire no later than September 3, 2002, which is the business day following the date on which the Notes must either be converted or retired. Upon option exercise, we have the ability, at our option, to permit the options to be physically settled (i.e., shares would be delivered to us against payment of the exercise price), settled in cash (i.e., by a payment from one party to the other of the value of the option being exercised) or "net settled" in shares (i.e., by delivery of a number of shares of common stock having a value equal to the value of the option being exercised). We can also terminate the options prior to expiration for a settlement value determined from time to time by the appropriate third party. While the options are only exercisable at expiration, the terms of the contracts with the third parties provide for early termination and settlement of the options upon the occurrence of certain events, including without limitation our material breach of the agreement, default on certain indebtedness or covenants relating to our financial condition, reduction in our S&P credit rating below B or a drop in the price of our Common Stock to less than $1.67 per share.

If the average stock price is below $9.48 during any period, the required number of shares to net settle the Company's obligation under the put option agreement would be considered dilutive securities in our dilutive earnings per share ("EPS") calculation.

Given the cyclical nature of the semiconductor equipment industry, we believe that maintenance of sufficient liquidity reserves is important to ensure our ability to maintain levels of investment in R&D and capital infrastructure through ensuing business cycles. Based upon our current business outlook, our cash, cash equivalents, short-term investments and restricted cash at March 25, 2001 are expected to be sufficient to support our current anticipated levels of operations and capital expenditures through at least the next 12 months.

RISK FACTORS

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. These factors include, but are not limited to:

- economic conditions in the semiconductor industry generally, and the equipment industry specifically;
- customer capacity requirements;
- the size and timing of orders from customers;
- customer cancellations or delays in our shipments;
- 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;
- new or modified accounting regulations;
- changes in average selling prices and product mix; and
- exchange rate fluctuations.

We manage our expense levels in part on our expectations of future revenues. If revenue levels in a particular quarter do not meet our expectations, our operating results are adversely affected.

We derive our revenue primarily from the sale of a relatively small number of high-priced systems. Our systems can range in price from approximately $400,000 to $4 million per unit. Our operating results for a quarter may suffer substantially if:

- we sell fewer systems than we anticipate in any quarter;

- we do not receive anticipated orders in time to enable actual shipment during that quarter;

- one or more customers delay or cancel anticipated shipments; or

- shipments are delayed by procurement shortages or manufacturing difficulties.

Our ability to recognize revenues might be delayed due to changes in accounting rules. SAB No. 101 "Revenue Recognition in Financial Statements" provides new guidance on the recognition, presentation and disclosure of revenue in financial statements of all public registrants. Currently, we generally recognize revenue on equipment upon shipment to our customers. The adoption of SAB 101 may require that some or all of that revenue not be recognized until the equipment is accepted by the customers, an event which generally does not happen until sometime after shipment has occurred. Compliance with SAB 101 therefore might delay our recognition of revenue, compared to our current practice, for one or more quarters. The SEC has delayed the required implementation date of SAB 101, which for us, will be the fourth quarter of fiscal 2001. In October 2000, the SEC issued implementation guidance in the form of "Frequently Asked Questions". We are still in the process of assessing the impact of SAB 101 on our consolidated results of operations based upon the SEC's most recently issued guidance.

Further, because most all of our manufacturing operations and capacity is located at our Fremont, California facility, natural, physical, logistical or other events or disruptions affecting this facility (including labor disruptions) could adversely impact our financial performance.

The Semiconductor Equipment Industry is Volatile; and the Industry is Currently Experiencing a Fall in Product Demand

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 and products using integrated circuits. The semiconductor industry is cyclical in nature and historically experiences periodic downturns. During the past three years the semiconductor industry has experienced severe swings of product demand and volatility in product pricing. In early fiscal 1998 and fiscal 1999, the semiconductor industry reduced or delayed significantly purchases of semiconductor manufacturing equipment and construction of new fabrication facilities because of an industry downturn. However, beginning in late fiscal 1999, we experienced a recovery in demand for our products, which drove sales growth throughout calendar year 2000. In the second half of the December 2000 quarter we began to see signs that this upturn was slowing and that customers were likely to reduce equipment purchases during the first half of calendar year 2001. These signs were confirmed in the March 2001 quarter as semiconductor manufacturers canceled or delayed many orders. These order reductions are expected to have a negative impact on the level of system shipments in at least the June 2001 and September 2001 quarters.

Fluctuating levels of investment by the semiconductor manufacturers and pricing volatility will continue to materially affect our aggregate bookings, revenues and operating results. Even during periods of reduced revenues, we must continue to invest in research and development and to maintain extensive ongoing worldwide customer service and support capabilities to remain competitive, which may temporarily harm our financial results

We Depend on New Products and Processes for Our Success. For this Reason, 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 enabling such processes. We believe that our future success depends in part upon our ability to develop, manufacture and successfully introduce new products with improved capabilities and to continue to enhance our existing products. Due to the risks inherent in transitioning to new products, we must forecast accurately demand for new products while managing the transition from older products. If new products have reliability or quality 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. In the past, some product introductions have caused delays and reliability and quality problems. We may be unable to develop and manufacture new products successfully, or new products that we introduce may fail in the marketplace, which would materially and adversely affect our results from operations.

We expect to continue to make significant investments in research and development and to pursue joint development relationships with customers or other members of the industry. We must manage product transitions and joint development relationships successfully, as introduction of new products could adversely affect our sales of existing products. Future technologies, processes or product developments may render our current product offerings obsolete, or we may be unable in a timely manner to develop and introduce new products or enhancements to our existing products which satisfy customer needs or achieve market acceptance. In addition, in connection with the development of new products, we will invest in pilot production inventory. Our failure in a timely manner to complete commercialization of these new products could result in inventory obsolescence, which would adversely affect our financial results.

We Are Subject to Risks Associated with the Introduction of New Products

Once new products are introduced, we expect to face significant competition from multiple current and future competitors. We believe that other companies are developing systems and products that are competitive to ours and are planning to introduce new products to this market, which may affect our ability to sell our new products. Furthermore, new products represent significant investments of our resources and their success, or lack thereof, could have a material affect on our financial results.

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 these products to continue to account for a large percentage of our revenues in the near term. Continued market acceptance of our primary 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 our products;
- a failure to achieve continued market acceptance of our products;
- an improved version of products being offered by a competitor in the market we participate in;
- technological change that we are unable to address with our products; and
- a failure to release new enhanced versions of our products on a timely basis.

We are Dependent Upon a Limited Number of Key Suppliers

We obtain certain components and sub-assemblies included in our products from a single supplier or a limited group of suppliers. Each of our key suppliers has a one year blanket purchase contract under which we may issue purchase orders. We may renew these contracts periodically. Each of these suppliers sold us products during at least the last four 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 source suppliers. Nevertheless, a prolonged inability to obtain certain components could adversely affect our operating results and result in damage to our customer relationships.

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 capital 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. Accordingly, we expect it to be more difficult to sell to a given customer if that customer initially selects a competitor's equipment. We believe that to remain competitive we will require 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 research and development.

We May Lack the Financial Resources or Technological Capabilities of Certain of Our Competitors Needed to Capture Increased Market Share

Certain of our competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer service and support resources than we do and therefore are increasingly dominating the semiconductor equipment industry. In addition, there are smaller emerging semiconductor equipment companies that may provide innovative technology that may have performance advantages over systems we currently, or expect to, offer.

We anticipate our competitors will continue to improve the design and performance of their current products and processes and to introduce new products and processes with enhanced performance characteristics. If our competitors enter into strategic relationships with leading semiconductor manufacturers covering products similar to those we sell or may develop, it could adversely affect our ability to sell products to those manufacturers. In addition, competitors with higher levels of financial resources than we have may continue to deeply discount products similar to those we sell. For these reasons, we may fail to continue to compete successfully worldwide.

Our present or future competitors may be able to develop products comparable or superior to those we offer or that adapt more quickly to new technologies or evolving customer requirements. In particular, while we currently are developing additional product enhancements that we believe will address 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, we may be unable to continue to compete effectively in our markets, competition may intensify or future competition may have a material adverse effect on our revenues, operating results, financial condition and cash flows.

Our Future Success Depends on International Sales

International sales accounted for approximately 71% of our total revenue in fiscal 2000, 54% in fiscal 1999, and 55% in fiscal 1998. We expect that international sales will continue to account for a significant portion of our total revenue in future years. International sales are subject to risks, including, but not limited to:

- foreign exchange risks;
- foreign trade disputes; and
- economic, political, banking and currency problems in the relevant region.

We currently enter into foreign currency forward contracts to minimize the short-term impact of exchange rate fluctuations on yen-denominated sales and assets, and will continue to enter into hedging transactions in the future.

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 in general compliance with these regulations and that we have obtained (or will obtain or are otherwise addressing) all necessary environmental permits 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, suspension of production, cessation of our operations or reduction in our customers' acceptance of our products. These regulations could require us to alter our current operations, to acquire significant 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.

Our Ability to Manage Potential Growth or Decline; Integration of Potential Acquisitions and Potential Disposition of Product Lines and Technologies Creates Risks for Us

Our management may face significant challenges in maintaining adequate financial and business controls, management processes, information systems and procedures on a timely basis, and expanding, training and managing our work force if we experience additional growth. There can be no assurance that we will be able to perform such actions successfully. Alternatively, we may be faced with a sudden decrease in demand for our products, which would challenge our management to reduce spending on operations and inventory. In the future, we may make acquisitions of complementary companies, products or technologies, or we may reduce or dispose of certain product lines or technologies, which no longer fit our long-term strategy. Managing an acquired business or disposing of product technologies entails numerous operational and financial risks, including difficulties in assimilating acquired operations and new personnel or separating existing business or product groups, diversion of management's attention to other business concerns, amortization of acquired intangible assets and potential loss of key employees or customers of acquired or disposed operations. 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. There can be no assurance that we will be able to achieve and manage successfully any such growth, decline, integration of potential acquisitions or disposition of product lines or technologies, or that our management, personnel or systems will be adequate to support continued operations. Any such inabilities or inadequacies would have a material adverse effect on our business, operating results, financial condition and cash flows.

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. We may acquire additional businesses, products or technologies in the future. Any acquisitions could result in changes such as potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and the amortization expense related to goodwill and other intangible assets, 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 extremely 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 factors, including the following:

- general market or semiconductor industry conditions;
- global economic fluctuations;
- variations in our quarterly operating results;
- variations in our revenues or earnings from levels securities analysts forecast;
- announcements of restructurings, technological innovations, reductions in force, departure of key employees, consolidations of operations or introduction of new products;
- government regulations;
- developments in or claims relating to patent or other proprietary rights;
- disruptions with key customers; or
- political, economic or environmental events occurring globally or in our key sales regions.

In addition, the stock market has, in recent years, experienced increasing significant price and volume fluctuations. Recent volatility in the price of our Common Stock was tied 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 may adversely affect the price of our Common Stock, regardless of our actual operating performance. In the past, following volatile periods in the price of stock, many companies become 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 in the price for our Common Stock.

Risk Associated with Our Call and Put Options

We have entered into third party option transactions for the purchase and sale of our stock. The option positions will be of value to us if our stock price exceeds the exercise price of the call options at the time the options are exercised. Conversely, our stock price could also decline. If our stock price on the exercise date of the options were below the put option exercise price, we would have to settle the put obligation by paying cash or the equivalent value in Common Stock.

If settlement were to occur prior to option expiration because of the occurrence of an event giving the third parties the right to terminate the transactions, we will be required both to pay to the third parties the value of their position (which would depend on a number of factors, including the time remaining to expiration and the volatility of Lam Common Stock) which could be greater or lesser than the difference between the options' exercise prices and the then market price of

Lam Common Stock, as well as any costs or expenses incurred by the third parties as a result of unwinding the transactions.

The Potential Anti-Takeover Effects of Our Bylaws Provisions and the Rights Plan We Have in Place May Affect Our Stock Price and Inhibit a Change of Control Desired by Some of Our Stockholders

On January 23, 1997, we adopted a Rights Plan (the "Rights Plan") in which rights were distributed as a dividend at the rate of one right for each share of our Common Stock, held by stockholders of record as of the close of business on January 31, 1997, and thereafter. In connection with the adoption of the Rights Plan, our Board of Directors also adopted a number of amendments to our Bylaws, including amendments requiring advance notice of stockholder nominations of directors and stockholder proposals.

The Rights Plan may have certain anti-takeover effects. The Rights Plan will cause substantial dilution to a person or group that attempts to acquire Lam in certain circumstances. Accordingly, the existence of the Rights Plan and the issuance of the related rights may deter certain acquirers from making takeover proposals or tender offers. The Rights Plan, however, is not intended to prevent a takeover. Rather it is designed to enhance the ability of our Board of Directors to negotiate with a potential acquirer on behalf of all of our stockholders.

In addition, our Certificate of Incorporation authorizes issuance of 5,000,000 shares of undesignated Preferred Stock. Our Board of Directors, without further stockholder approval, may issue this Preferred Stock on such terms as the Board of Directors may determine, which also could have the effect of delaying or preventing a change in control of Lam. The issuance of Preferred Stock could also adversely affect the voting power of the holders of our Common Stock, including causing the loss of voting control. Our Bylaws and indemnity agreements with certain officers, directors and key employees provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from their service to Lam. Moreover, Section 203 of the Delaware General Corporation Law restricts certain business combinations with "interested stockholders", as defined by that statute.

Intellectual Property and Other Claims Against Us Can Be Costly and Could Result in the Loss of Significant Rights which are Necessary to our Continued Business and Profitability

Other parties may assert infringement, unfair competition or other claims against us. Additionally, from time to time, other parties send us notices alleging that our products infringe their patent or other intellectual property rights. In such cases, it is our policy either to defend the claims or to negotiate licenses on commercially reasonable terms. However, we may be unable in the future to negotiate necessary licenses 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.

In October 1993, Varian Associates, Inc. sued us in the United States District Court for the Northern District of California, seeking monetary damages and injunctive relief based on our alleged infringement of certain patents Varian held. We asserted defenses that the subject patents are invalid and unenforceable, and that our products do not infringe these patents. Litigation is inherently uncertain and we may fail to prevail in this litigation. However, we believe that the Varian lawsuit will not materially adversely affect our operating results or financial position. See Part II Item 1of this Form 10-Q for a discussion of the Varian lawsuit.

Additionally, in September 1999, Tegal Corporation sued us in the United States District Court for the Eastern District of Virginia, seeking monetary damages and injunctive relief based on our alleged infringement of certain patents Tegal holds. Specifically, Tegal identified our 4520XLe ™ and Exelan™ products as infringing the patents Tegal is asserting. Litigation is inherently uncertain and we may fail to prevail in this litigation. However, we believe that the Tegal lawsuit will not materially adversely affect our operating results or financial position. See Part II Item 1 of this Form 10-Q for a discussion of the Tegal lawsuit.

We May Fail to Protect Our Proprietary Technology Rights, which Would Affect Our Business

Our success depends in part on our proprietary technology. While we attempt to protect our proprietary technology through patents, copyrights and trade secret protection, we believe that our success also depends on increasing our technological expertise, continuing our development of new systems, increasing market penetration and growth of our installed base, and providing comprehensive support and service to our customers. However, we may be unable to protect our technology in all instances, or our competitors may develop similar or more competitive technology independently. 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 pending applications. In addition, the rights granted or anticipated under any of these patents or pending patent applications may be narrower than we expect or in fact provide no competitive advantages.

ITEM 3. Quantitative And Qualitative Disclosures about Market Risk

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 the Company's Annual Report on Form 10-K for the year ended June 25, 2000.

During fiscal 1999, we entered into third party option transactions for the purchase and sale of our Common Stock, in order to offset the dilutive effect of a potential conversion into Common Stock of the Convertible Subordinated Notes we previously issued and which are due September 2, 2002. We have as of March 25, 2001 acquired call options to purchase 3.72 million shares of our Common Stock. The weighted average exercise price of these options is $11.29. The call options provide that our maximum benefit at expiration is $17.97 per option share (the difference between $29.26, which is the conversion price of the Notes, and the weighted average exercise price of the call options). We have also entered into put option contracts with the same third parties covering 5.58 million shares of our Common Stock, giving those third parties the right to sell to us shares of our Common Stock at a weighted average price of $9.48 per share. Pursuant to EITF 00-19 the redemption value of the put option contracts, $52.9 million, has been reclassified to temporary equity.

Below is a table showing, at assumed exercise prices for the put and call options and market prices for our Common Stock, our gain or (loss) under the put and call options upon exercise or upon maturity of the options transaction.

	At March 25, 2001	At Maturity
	(in thousands)	
Stock Value		
$5.00	$ (24,618)	$ (24,998)
$15.00	$ 6,717	$ 13,814
$25.00	$ 24,457	$ 51,029
$35.00	$ 35,410	$ 66,878
$45.00	$ 42,466	$ 66,878
$55.00	$ 47,305	$ 66,878

PART II. -- OTHER INFORMATION

ITEM 1. Legal Proceedings

In October 1993, Varian Associates, Inc. ("Varian") brought suit against us in the United States District Court, for the Northern District of California, seeking monetary damages and injunctive relief based on our alleged infringement of certain patents held by Varian. By order of the Court, those proceedings were bifurcated into an initial phase to determine the validity of the Varian patents and our infringement (if any), and a secondary phase to determine damages to Varian (if any) and whether our infringement (if shown) was willful. On April 13, 1999, the Court issued an interlocutory order construing the meaning of the terms of the patent claims at issue in the action. In September 1999, a hearing was held on a summary judgment motion, which might dispose of a number of Varian's claims. In early January 2001, the Court issued an order determining that we did not literally infringe Varian's patents, but the Court also held that a question of fact remained as to whether we may have infringed those patents by the doctrine of equivalents. There is now a trial date of November 26, 2001. There have been no findings in the action which have caused us reasonably to believe that any infringement, if found, or any damages, if awarded, would have a material adverse effect on our operating results or our financial position.

In September 1999, Tegal Corporation ("Tegal") brought suit against us in the United States District Court for the Eastern District of Virginia, seeking monetary damages and injunctive relief based on our alleged infringement of certain patents held by Tegal. Specifically, Tegal identified our 4520XLe and Exelan products as infringing the patents Tegal is asserting. On our motion, this case was transferred to California and is now pending in the United States District Court for the Northern District of California. To date, however, there has been no determination as to the actual scope of those claims, or whether our products have infringed or are infringing Tegal's patents. No trial date is currently scheduled in the action. Furthermore, there have been no findings in the action, which have caused us reasonably to believe that any infringement, if found, or any damages, if awarded, could have a material adverse effect on our operating results or our financial position.

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 negotiate licenses on commercially reasonable terms, where considered appropriate. 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 4. Submission of Matters to Vote of Security Holders

The Annual Meeting of Stockholders of Lam Research Corporation was held at the principal office of the Company at 4650 Cushing Parkway, Fremont, California 94538 on November 2, 2000.

Out of 124,519,539 shares of Common Stock entitled to vote at the meeting, 112,875,570 shares were present in person or by proxy.

The vote for nominated directors, to serve for the ensuing year, and until their successors are elected, was as follows:

NOMINEE	IN FAVOR	WITHHELD
James W. Bagley	112,504,665	370,905
Roger D. Emerick	112,336,196	539,374
David G. Arscott	112,508,362	367,208
Richard J. Elkus, Jr.	112,514,317	361,253
Jack R. Harris	112,506,821	368,749
Grant M. Inman	112,506,237	369,333
Kenneth M. Thompson	112,510,617	364,953

The results of voting on the following items were as set forth below:

Ratification of appointment of Ernst & Young LLP as independent auditors for the Company for the fiscal year ending June 24, 2001:

IN FAVOR	OPPOSED	ABSTAIN	BROKER NON VOTE
112,722,137	68,328	85,105	0

ITEM 6. Exhibits and Reports on Form 8-K

a. ***Exhibits:*** None

b. ***Reports on Form 8-K***

We did not file any reports on Form 8-K during the quarter ended March 25, 2001.

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: April 30, 2001

LAM RESEARCH CORPORATION
(Registrant)

By: /s/ Mercedes Johnson

Mercedes Johnson
Vice President, Finance & Chief Financial Officer
(Principal Financial Officer)