

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED JUNE 30, 1996  
/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER  
0-12933

LAM RESEARCH CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE	94-2634797
(State of other jurisdiction	(I.R.S. Employer
of incorporation)	Identification No.)
4650 CUSHING PARKWAY,	94538
FREMONT, CALIFORNIA	(Zip Code)
(Address of principal	
executive offices)	

Registrant's telephone number, including area code: (510) 659-0200

Securities registered pursuant to Section 12(b) of the Act: NONE

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

COMMON STOCK, PAR VALUE \$.001 PER SHARE

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the average of the closing price of the Common Stock on August 30, 1996, as reported by the Nasdaq National Market was approximately \$604,136,000. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded from this computation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of August 30, 1996, the registrant had outstanding 30,298,633 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended June 30, 1996 ("1996 Annual Report to Stockholders"), are incorporated by

reference into Parts I, II and IV of this Report.

Parts of Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on October 31, 1996 are incorporated by reference to Parts III and IV of this Form 10-K Report. (The Compensation Committee Report and the stock performance graph of the Registrant's Proxy Statement are expressly not incorporated by reference herein.)

## PART I

### ITEM 1. BUSINESS

This Report on Form 10-K contains certain forward looking statements regarding future events with respect to the Company. Actual events or results may differ materially as a result of the factors described herein and in the documents incorporated herein by reference, including, in particular, those factors described under "Risk Factors." Forward-looking statements are indicated by an asterisk (\*).

#### THE COMPANY

Lam Research Corporation (Lam) designs, manufactures, markets and services semiconductor processing equipment used in the fabrication of integrated circuits. Lam is recognized by its customers worldwide as a leading supplier of semiconductor production equipment. The Company's products are used to deposit special films on a silicon wafer (deposition) to selectively etch away portions of various films (etch) to create an integrated circuit. Deposition and etch processes, which are repeated numerous times during the fabrication cycle, are required to manufacture every semiconductor device produced today.

The Company currently sells a broad range of plasma (dry) etch products to address specific applications, including the AutoEtch-Registered Trademark-, Advanced Capabilities Rainbow-TM-, and Transformer Coupled Plasma-TM-(TCP-TM-) product lines. In the deposition market, Lam offers its Deep SubMicron-TM- (DSM-TM- 9800) (formerly Integrity-Registered Trademark-) low pressure (LP) chemical vapor deposition (CVD) system, a fully automated batch thermal CVD system for pre-metal dielectric applications, and its Deep SubMicron (DSM 9900) (formerly Epic-TM-) high density plasma (HDP) CVD system, which addresses advanced intermetal passivation dielectric applications for logic and microprocessor integrated circuits as well as shallow trenches for isolation in memory circuits.

#### PRODUCTS

Semiconductor wafers are subjected to a complex series of process steps that result in the simultaneous creation of many individual semiconductor circuits. The basic steps include deposition, photolithography, etching, assembly and testing. Lam's products are used in the deposition and etch process steps of semiconductor device manufacturing and are available as stand-alone systems or on the Company's Advanced Capabilities Alliance multichamber cluster platform. Lam incorporates its Envision-TM- interactive control system software for advanced production management on each of its systems.

#### ETCH PRODUCTS

The etch process defines line-widths and other micro features on integrated circuits. Plasma etching, a dry etch technique, was developed to meet the demand for device geometries with line-widths smaller than three microns. Plasma etching uses ionized gases that react with exposed portions of the wafer to produce finely delineated features and patterns of the integrated circuit.

Today manufacturers of advanced integrated circuits require etch systems that can produce line-widths as small as 0.25 micron (approximately 1/300 the thickness of a human hair) and in the future are expected to require systems capable

of producing devices with feature sizes smaller than 0.1 micron. In addition, advanced manufacturing facilities are producing integrated circuits on wafers of 150 or 200 mm (6 or 8 inches) in diameter, and a transition in wafer diameters is expected to increase to 300 mm (12 inches) starting in 1998. To

accommodate these decreasing line-widths and increasing wafer diameters, manufacturers increasingly require more precise control over the etching process.

Lam's family of etch systems incorporates plasma technologies designed to meet both current and future device requirements. In the fiscal years ended June 30, 1996, 1995 and 1994, sales of the Company's etch systems contributed approximately 77%, 77% and 78% of the Company's total revenues, respectively.

AUTOETCH. The AutoEtch family was Lam's initial product line, with the first AutoEtch etcher sold in January 1982. The AutoEtch product line includes the 490, 590 and 690 series for etching polysilicon, oxide and aluminum film, respectively. Although the AutoEtch series is more than fifteen years old, continued improvements in both reliability and performance have enabled Lam to continue to offer it as a suitable product for applications involving line widths of 0.8 micron or greater and wafer sizes of six inches or smaller. In addition, Lam offers the service of refurbishing or remanufacturing AutoEtch systems.

RAINBOW. The first Rainbow etch system was introduced in 1987. The Rainbow series of products addresses processes that utilize wafer sizes up to 200 mm and feature sizes as small as 0.35 micron. The Rainbow product line also available on the Alliance platform, includes the Rainbow 4400, 4500, 4600 and 4700 series for etching polysilicon, oxide, aluminum and tungsten films, respectively. These systems are designed to accommodate evolving customer needs through hardware and process enhancements.

The Rainbow product series incorporates a number of unique features that offer semiconductor manufacturers improved etch capability, reliability and performance. These features include a patented wafer handling system, a proprietary source for generating stable plasma, and an overall product design for which Lam has received industry awards for quality and reliability. These and other Rainbow product features enable the semiconductor manufacturer to reduce wafer particle contamination to a level that exceeds industry standards, and to improve etch selectivity and uniformity while maintaining profile control and process flexibility.

TCP. Lam's TCP product line of high density, low pressure etch systems, which was introduced in late 1992, incorporates the Company's patented Transformer Coupled Plasma source technology for etching 0.35 micron and smaller geometries. The Company currently offers the TCP 9600SE for metal etch applications, the TCP 9400SE for polysilicon and polycide etch applications and the TCP 9100 for oxide etch applications. These systems are currently used to produce a broad range of advanced logic and memory devices and the Company believes these products offer technological capability to enable manufacturers to produce the next generations of advanced devices. The TCP series operates at lower pressures for improved pattern transfer control and higher plasma density for higher etch rates with independent power control to the lower electrode, which improves etch results across a wider process window. Lam's TCP systems are designed to offer customers a reliable, lower cost of ownership solution to their advanced needs. The TCP systems are available as stand-alone, single wafer tools, or on the Alliance multichamber cluster platform.

#### DEPOSITION PRODUCTS

CVD involves the deposition of thin films on a silicon wafer by exposing the wafer to various reactant gases containing the materials to be deposited. Insulating films are deposited to form dielectric layers on integrated circuits. The metal interconnect layer is typically deposited on the wafer surface by a sputtering process to provide electrical connection between the various circuit elements. The dielectric layer is deposited over the interconnects and subsequent layer to provide electrical insulation between the interconnect layers. To increase circuit functionality, manufacturers have designed circuits with multilevel interconnections (stacked levels of wiring separated by insulating dielectric layers) using lower resistivity materials for improved device performance. Multiple levels of interconnects allow device manufacturers to increase the density and complexity of the integrated circuit. Current state-of-the-art devices may have as many as five interconnect and dielectric layers on the integrated circuit. Lam currently manufactures two dielectric layer deposition products, the DSM 9800 and DSM 9900, to address advanced device requirements.

DSM 9800. DSM 9800 LP CVD system for depositing advanced pre-metal dielectric films. This system utilizes a patented integrated process design for flowing gases rapidly over the wafer, forming films that are highly uniform and planar at a lower thermal budget to provide improved device performance. DSM 9800 has been installed worldwide and is currently being used for production of semiconductor devices at 0.35 micron and beyond.

DSM 9900. Lam introduced its DSM 9900 HDP CVD system in November 1995. DSM 9900 represents the next generation in HDP CVD technology first introduced in the Epic system with the DSM 9900 having a smaller footprint, high reliability and improved throughput. The DSM 9900 is well suited for the demanding requirements of high production environments. Like the Epic, the DSM 9900 makes use of electron cyclotron resonance (ECR) technology to form a high density, low pressure plasma. ECR enables remote plasma coupling that minimizes particulate contamination and maximizes throughput while filling gaps as small as 0.18 microns with aspect ratios as high as 3:1. The intermetal dielectric films created by simultaneously depositing and etching are planarized more easily, by chemical mechanical polishing, than films that are repeatedly deposited and etched by conventional techniques. The DSM 9900 technology, available on Lam's Alliance platform, has been installed at several customer sites and is being qualified for production of quarter- and sub-quarter-micron logic, microprocessor, and memory integrated circuits. The Epic system is still being supported and is used for production of microprocessors.

Lam, Lam Research, Transformer Coupled Plasma, TCP, Deep SubMicron, DSM, Rainbow, Continuum, Alliance and Envision are trademarks of Lam Research Corporation. AutoEtch is a registered trademark of Lam Research Corporation.

#### THE RESTRUCTURING

In August 1996, the Company announced a restructuring (the restructuring) of its operations, consolidating its previous business unit structure into centralized functional organizations. As a result of the restructuring, and in response to industry conditions, the Company reduced its workforce by approximately 11%. For the first quarter of fiscal 1997, the Company will record a restructuring charge of \$11.0 to 12.0 million for costs resulting primarily from severance compensation and consolidation of related facilities.

#### RESEARCH AND DEVELOPMENT

The market for semiconductor capital equipment is characterized by rapid technological change. The Company believes that continued and timely development of new products and enhancements to existing products are necessary for it to maintain its competitive position. Accordingly, the Company devotes a significant portion of its personnel and financial resources to research and development (R&D) programs and seeks to maintain close relationships with its customers to be responsive to their product needs.

The Company's net R&D expenses during fiscal 1996, 1995 and 1994, were approximately \$173.0 million, \$127.8 million and \$76.3 million, respectively, and represented 13.6%, 15.8% and 15.5% of total revenue, respectively. Such R&D expenses were net of third party funding, from SEMATECH, an industry consortium, and customers, representing approximately \$3.4 million, \$2.6 million and \$1.8 million during fiscal 1996, 1995 and 1994, respectively. Such expenditures were used for the development of new products and film applications, and the continued enhancement of existing products. Current projects include the development of advanced etch and deposition products.

In June 1994, the Company received a two year contract from the United States Display Consortium (USDC) for the development of a flat panel display etch system, based on the Company's TCP technology. The Continuum-TM- etch system is designed for use in the manufacture of large scale flat panel displays for several new technologies including active matrix liquid crystal displays (AMLCDs) and field emission displays (FEDs). Included in the \$3.4 million and \$2.6 million of third party funded R&D for fiscal 1996 and 1995 was \$3.2 million and \$1.2 million from USDC.

The Company expects to continue to make substantial investments in R&D.\* The Company also must manage product transitions successfully, as introductions of new products could adversely affect sales of existing products. There can be no assurance that future technologies, processes or product developments will not render the Company's product

offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products and processes in a timely manner which satisfy customer needs or achieve market acceptance. The failure to do so could adversely affect the Company's business. Furthermore, if the Company is not successful in the development of advanced process equipment for manufacturers with whom it has formed strategic alliances, its ability to sell its products to those manufacturers would be adversely affected. In addition, in connection with the development of the Company's new products, the Company invests in high levels of pre-production inventory, and the failure to complete development and commercialization of these new products in a timely manner could result in inventory obsolescence, which could reduce the Company's financial results.

#### MARKETING, SALES AND SERVICE

The Company's marketing and sales efforts are focused on building long-term relationships with its customers. These efforts are supported by a team of product marketing managers, sales personnel, equipment engineers and process engineers that works closely with individual customers to find solutions to their process needs. After-sales support is an essential element of the Company's marketing and sales program. The Company maintains an ongoing support relationship with its customers and has an extensive network of field service personnel in place across the United States, Europe, Japan and Asia Pacific. In addition, the Company maintains an in-house group of highly skilled application engineers to respond to customer process needs worldwide when a higher level of technical expertise is required. The Company believes that its extensive support programs and close working relationships with its customers give it a competitive advantage. The Company also believes that, by assisting its customers in the development of their advanced manufacturing processes, the customers are less likely to change equipment vendors.

The Company has 40 sales and support centers located throughout the United States, Europe, Japan, and Asia Pacific, through which direct sales personnel and independent sales representatives sell and service the Company's products. The Company has expanded its sales and support offices in Japan to support the direct sales efforts which began in October 1994. More recently, the Company has increased that effort by furthering its direct sales and service capability in Japan to directly market and support its advanced etch products. The Company now offers its customers a comprehensive, two-year warranty package on all released products with 24 hour, seven days a week service.

In Japan, the Company has licensing arrangements with Sumitomo Metal Industries, Ltd. (Sumitomo) and Tokyo Electron Limited (TEL). Sumitomo manufactures, sells and distributes certain of the Company's Rainbow products to specific customers in Japan under an exclusive license agreement with Lam. TEL has a non-exclusive license to sell products incorporating certain features of Lam's proprietary etch technology. In June 1991, the Company opened the Lam Technology Center near Tokyo, Japan, to establish a presence in Japan and to assist Sumitomo in serving Japanese customers. In May 1993, Lam completed its advanced development and demonstration laboratory in Sagamihara, Japan, which allows customers to evaluate the Company's recently introduced advanced technology products. During fiscal 1996, the Company expanded in Japan by building a third floor on this existing building. In July 1996, the Company began construction of a second facility in Sagamihara, Japan.

Export sales accounted for approximately 41%, 38% and 40% of net sales in fiscal 1996, 1995 and 1994, respectively. Export sales consist of sales from the Company's U.S. operating subsidiary to nonaffiliated customers in foreign countries. Additionally, the Company expanded its international operations, including expansion of its Japan operations, the opening of a manufacturing facility in Korea in July 1995 and the relocation and expansion of the Taiwan facility to a technology development center. As a result, a significant portion of the Company's sales and operations will be subject to certain risks, including tariffs and other barriers, difficulties in staffing and managing foreign subsidiary and branch operations, difficulties in managing distributors, potentially adverse tax consequences and the possibility of difficulty in accounts receivable collection.\* There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial position, results of operations and cash flows.

#### CUSTOMERS

The Company's customers include most of the leading semiconductor manufacturers worldwide. In fiscal 1996, no single customer accounted for more than 10% of Lam's total revenue. Revenue from Intel accounted for 11% and 14% of

total revenue for the years ended June 30, 1995 and 1994, respectively. Revenue from Motorola accounted for 10% of total revenue for the year ended June 30, 1995.

The Company's business depends upon the capital expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits and products utilizing integrated circuits. The semiconductor industry is currently experiencing a slowdown in terms of product demand and product pricing. This has caused semiconductor manufacturers to exercise caution in making their capital equipment purchase decisions and in certain cases customers have either rescheduled or cancelled capital equipment purchases. In response to market conditions, the Company announced a restructuring of its operations, consolidating its previous business unit structure into centralized functional organizations. No assurance can be given that the Company's revenue and operating results will not be further adversely affected if downturns in the semiconductor industry occur.

#### BACKLOG

The Company schedules production of its systems based upon order backlog and customer commitments. Included in backlog for the Company are orders for which written authorizations have been accepted and shipment dates have been assigned. As of June 30, 1996, the Company's order backlog was approximately \$328.0 million. As of June 30, 1995, the Company's order backlog was approximately \$252.6 million. The semiconductor market is presently experiencing volatility in terms of product demand and product pricing. This has caused certain semiconductor manufacturers to exercise caution in making their capital equipment purchase decisions and in certain cases to reschedule or cancel capital equipment purchases. All orders are subject to cancellation by the customer with limited penalty. Because some orders are received for systems to be shipped in the same quarter and possible customer changes in delivery schedules and cancellations of orders, the Company's backlog at any particular date is not necessarily indicative of actual sales for any succeeding period.

#### MANUFACTURING

The Company maintains U.S. facilities at five locations in Fremont, California and one location in Wilmington, Massachusetts for the manufacture of its etch and deposition products. In addition, in July 1995, the Company completed a manufacturing facility in CheonAn, Korea. The Company's Korean manufacturing facility may experience difficulties in management, procurement, production and staffing. There can be no assurances that these factors will not have an adverse effect on the Company's business, financial condition and results of operations.

The Company's manufacturing activities consist of assembling and testing components and subassemblies that are then integrated into finished systems. Once the manufacturing department has completed final testing of all electronic and electromechanical subassemblies that make up one of the Company's products, the completed system is process tested. Stringent cleanliness controls are present throughout the manufacturing, process and testing areas of these facilities to reduce particle contamination. Much of the assembly and testing of the Company's products is conducted in cleanroom environments where personnel are properly attired to reduce particulate contamination. Prior to shipping a completed system, the customer's engineers may perform acceptance tests at Lam's facility, using the customer's own wafers. After passing the acceptance test, the system is vacuum-bagged in a cleanroom environment and prepared for shipment.

The Company is subject to a variety of governmental regulations related to the discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in the manufacturing process. The Company believes that it is in compliance with these regulations and that it has obtained all necessary environmental permits to conduct its 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 the

Company, suspension of production or cessation of operations. Such regulations could require the Company to acquire significant equipment or to incur substantial other expenses to comply with environmental regulations. Any failure by the Company to control the use of, or adequately restrict the discharge or disposal of hazardous substances could subject the Company to future liabilities.

#### EMPLOYEES

As of August 30, 1996, the Company had approximately 4,500 full-time employees. As a result of the restructuring in August 1996, the Company reduced its workforce by approximately 11%. None of the Company's employees are represented by a union, and the Company has never experienced a work stoppage. Management considers its employee relations to be satisfactory. In addition, each employee of the Company has signed agreements to maintain the confidentiality of the Company's proprietary information, and most key employees have stock or stock option arrangements with the Company that provide for the vesting of their interests over several years.

#### COMPETITION

The semiconductor processing equipment industry is highly competitive. The Company faces substantial competition throughout the world. The Company believes that to remain competitive, it 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 R&D. Certain of the Company's existing and potential competitors have substantially greater financial resources, more extensive engineering, manufacturing, marketing and customer service and support organizations. The Company expects its competitors to continue to improve the design and performance of their current products and processes and to introduce new products and processes with improved price and performance characteristics.\* If the Company's competitors enter into strategic relationships with leading semiconductor manufacturers covering etch or deposition products similar to those sold by the Company, its ability to sell its products to those manufacturers could be adversely affected.\* No assurance can be given that the Company will continue to compete successfully in the United States or worldwide.

Significant competitive factors in the etch equipment market include etch quality, repeatability, process capability and flexibility and overall cost of ownership, including reliability, software automation, throughput, customer support and system price. Although the Company believes that it competes favorably with respect to each of these factors, the Company's ability to compete successfully in this market will depend upon its ability to introduce product enhancements and new products on a timely basis. There can be no assurance that the Company will continue to compete successfully in the future. In the etch equipment market, the Company's primary competitors are Applied Materials, Inc., TEL, and Hitachi Ltd.

Significant competitive factors in the deposition equipment market include film quality, flow uniformity, contamination control, temperature control and overall cost of ownership, including throughput, system reliability, cost of consumables, system price and customer support. In the deposition equipment market, the principal suppliers of equipment are Applied Materials, Inc., Canon Sales Co. Inc., Novellus Systems, Inc. and Watkins-Johnson Company.

#### PATENTS AND LICENSES

The Company has a policy of seeking patents on inventions governing new products and processes developed as part of its ongoing research, engineering and manufacturing activities. The Company holds United States patents and corresponding foreign patents covering various aspects of its products. The Company believes that the duration of its patents generally exceeds the life cycles of the technologies disclosed and claimed therein. The Company believes that although the patents it holds and may obtain will be of value, they will not determine the Company's success, which depends principally upon its engineering, marketing, service and manufacturing skills. However, in the absence of patent protection, the Company may be vulnerable to competitors who

attempt to imitate the Company's products, manufacturing techniques and processes. In addition, other companies and inventors may receive patents that contain claims applicable to the Company's products and processes. The sale of the Company's products covered by such patents could require licenses that may not be available on acceptable terms.

From time to time, the Company is notified that it may be in violation of certain patents. In such cases, the Company's policy is to defend against claims or negotiate licenses where considered appropriate. However, no assurance can be given that it will be able to obtain necessary licenses on commercially reasonable terms. In October 1993, Varian Associates, Inc. (Varian) brought suit against the Company in the United States District Court, Northern District of

7

California, seeking monetary damages and injunctive relief based on the Company's alleged infringement of certain patents held by Varian. See "Item 3. Legal Proceedings."

In December 1986, the Company entered into a non-exclusive license agreement with TEL, licensing the Company's AutoEtch technology and chamber design. This license expired in December 1991, and, in January 1992, the Company entered into a new five year license agreement with TEL on substantially similar terms which was due to expire in December 1996 but has been extended at a substantially lower royalty.

The Company has two license agreements with Sumitomo. Under one agreement, Lam granted Sumitomo an exclusive license for the manufacture and sale of certain Rainbow etch systems in the Japanese market. Under the other agreement, Sumitomo granted the Company an exclusive license for the manufacture and sale of Sumitomo's ECR systems in North America and Europe.

#### RISK FACTORS

##### CURRENT SLOWDOWN AND VOLATILITY IN THE SEMICONDUCTOR INDUSTRY

The Company's business depends upon the capital equipment expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits and products utilizing integrated circuits. The semiconductor industry has been cyclical in nature and historically experienced periodic downturns. The semiconductor industry is presently experiencing a slowdown in terms of product demand and volatility in terms of product pricing. This slowdown and volatility has caused the semiconductor industry to reduce its demand for semiconductor processing equipment. No assurance can be given that the Company's revenue and operating results will not be adversely affected during this and possible future downturns in the semiconductor industry. In addition, the need for continued investments in research and development, substantial capital equipment requirements and extensive ongoing worldwide customer service and support capability will limit the Company's ability to reduce expenses.\* Accordingly, there is no assurance that the Company will be able to remain profitable in the future.

##### HIGHLY COMPETITIVE INDUSTRY

The semiconductor processing equipment industry is highly competitive. The Company faces substantial competition throughout the world. The Company believes that to remain competitive, it will require significant financial resources in order 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. In addition, the Company intends to continue to invest substantial resources to increase sales of its systems to Japanese semiconductor manufacturers, who represent a substantial portion of the worldwide semiconductor market and whose market is difficult for non-Japanese equipment companies to penetrate. The Company believes that the semiconductor equipment industry is becoming increasingly dominated by large manufacturers who have the resources to support customers on a worldwide basis, and certain of the Company's competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer service and support capabilities than the Company. In addition, there are smaller emerging semiconductor equipment companies which provide innovative technology. The Company expects its competitors to continue to improve the design and performance of their current products and processes and to introduce new

products and processes with improved price and performance characteristics. If the Company's competitors enter into strategic relationships with leading semiconductor manufacturers covering etch or deposition products similar to those sold by the Company, its ability to sell its products to those manufacturers could be adversely affected.\* No assurance can be given that the Company will continue to compete successfully in the United States or worldwide.

#### DEPENDENCE ON NEW PRODUCTS AND PROCESSES; RAPID TECHNOLOGICAL CHANGE

Semiconductor manufacturing equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part upon its ability to continue to enhance its existing products and their process capabilities and to develop and manufacture new products with improved process capabilities. As a result, the Company expects to continue to make significant investments in research and development.\* The Company also must

8

manage product transitions successfully, as introductions of new products could adversely affect sales of existing products. There can be no assurance that future technologies, processes or product developments will not render the Company's current product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products and processes in a timely manner which satisfy customer needs or achieve market acceptance. The failure to do so could adversely affect the Company's business. Furthermore, if the Company is not successful in the development of advanced processes or equipment for manufacturers with whom it has formed strategic alliances, its ability to sell its products to those manufacturers would be adversely affected. In addition, in connection with the development of the Company's new products, the Company invests in high levels of preproduction inventory, and the failure to complete development and commercialization of these new products in a timely manner could result in inventory obsolescence, which could have an adverse effect on the Company's financial results.

#### FLUCTUATIONS IN QUARTERLY OPERATING RESULTS

The Company's revenue and operating results may fluctuate from quarter to quarter. The Company derives its revenue primarily from the sale of a relatively small number of high-priced systems which can range in price from \$300,000 to over \$3 million. Some of these systems are ordered and shipped during the same quarter. The Company's results of operations for a particular quarter could be adversely affected if anticipated orders for even a small number of systems were not received in time to enable shipment during the quarter, if anticipated shipments were delayed or cancelled by one or more customers or if shipments were delayed due to manufacturing difficulties. In particular, the Company has experienced certain cases of rescheduling or cancellation of orders. The Company's revenue and operating results may also fluctuate due to the mix of products sold, the geographic region or the level of royalty income from the Company's Japanese licenses. The Company generally realizes a higher margin on sales of its mature etch products and on revenue from service and spare parts than on sales of new TCP and Alliance products. Newer products usually have lower margins in the initial phase of production. Increases or decreases in royalty income will also have a disproportionate impact on operating income and will continue to fluctuate on a quarterly basis. The impact of these and other factors on the Company's revenues and operating results in any future periods is difficult for the Company to forecast.

#### DEPENDENCE ON KEY SUPPLIERS

Certain of the components and subassemblies included in the Company's products are obtained from a single supplier or a limited group of suppliers. The Company believes that alternative sources could be obtained and qualified to supply these products. Nevertheless, a prolonged inability to obtain certain components could have an adverse effect on the Company's operating results and could result in damage to customer relationships.

#### ENVIRONMENTAL REGULATIONS

The Company is subject to a variety of governmental regulations related to the discharge or disposal of toxic, volatile, or otherwise hazardous chemicals used in the manufacturing process. The Company believes that it is in compliance with these regulations and that it has obtained all necessary environmental permits to conduct its business, which 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 the Company, suspension of production or cessation of operations. Such regulations could require the Company to acquire significant equipment or to incur substantial other expenses to comply with environmental regulations. Any failure by the Company to control the use of, or adequately restrict the discharge or disposal of hazardous substances could subject the Company to future liabilities.

#### INTERNATIONAL SALES

The Company anticipates that export sales will continue to account for a significant portion of its net sales.\* Additionally, the Company continues to expand its international operations, including expansion of its facilities in Asia. As a result, a significant portion of the Company's sales and operations will be subject to certain risks, including tariffs and other barriers, difficulties in staffing and managing foreign subsidiary and branch operations, difficulties in managing distributors, potentially adverse tax consequences and the possibility of difficulty in accounts receivable

9

collection. There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial condition and results of operations.

#### INTELLECTUAL PROPERTY MATTERS

From time to time, the Company is notified that it may be in violation of certain patents. In such cases, the Company's policy is to defend against the claims or negotiate licenses where considered appropriate. However, no assurance can be given that it will be able to obtain necessary licenses on commercially reasonable terms, or at all, or any litigation resulting from such claims could have a material adverse effect on the Company's business and financial condition.

#### ITEM 2. PROPERTIES

The Company's executive offices and principal manufacturing, and research and development facilities are located in eighteen buildings in Fremont, California, occupying over 1,500,000 square feet under leases expiring from 1998 to 2006. Due to the restructuring, the Company currently has excess capacity and will consolidate and/or sublease some of its idle facilities in Fremont, California. The Company also operates a research and manufacturing facility in Wilmington, Massachusetts.

In addition, the Company leases office space for its service and sales personnel throughout the United States, Europe, Japan and Asia Pacific. The Company completed, in July 1995, construction of a manufacturing, sales and service facility of 40,000 square feet, in CheonAn, South Korea. In fiscal 1996, the Company expanded its current facility in Japan by building a third floor on an existing building and completed the design for a second facility in Sagami-hara. Construction of the second facility began in July 1996.

The Company's fiscal 1996 rental payments for the facilities occupied as of June 30, 1996 aggregated approximately \$35.3 million and are subject to periodic increases. The Company believes that its existing facilities are well maintained and in good operating condition.

#### ITEM 3. LEGAL PROCEEDINGS

In October 1993, Varian Associates, Inc. (Varian) brought suit against the Company in the United States District Court, for the Northern District of California, seeking monetary damages and injunctive relief based on the Company's alleged infringement of certain patents held by Varian. The lawsuit is in the late stages of discovery and has recently been reassigned to a new judge. The Company has asserted defenses of invalidity and unenforceability of the patents that are the subject of the lawsuit, as well as noninfringement of such patents by the Company's products. While litigation is subject to inherent uncertainties and no assurance can be given that the Company will prevail in such litigation or will obtain a license under such patents on commercially reasonable terms, or at all, if such patents are held valid and infringed by the Company's products, the Company believes that the Varian lawsuit will not have a

material adverse effect on the Company's consolidated financial statements.

In addition, the Company is from time to time notified by various parties that it may be in violation of certain patents. In such cases, it is the Company's intention to seek negotiated licenses where it is considered appropriate. The outcome of these matters will not, in management's opinion, have a material impact on the Company's consolidated financial position, operating results or cash flow statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

10

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the Company's 1996 Annual Report to Stockholders under the heading "Selected Financial Data" on page 14.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to the Company's 1996 Annual Report to Stockholders under the heading "Selected Financial Data" on page 14.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated by reference to the Company's 1996 Annual Report to Stockholders under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 15-19.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements required by this Item are incorporated by reference to pages 20-32 of the Company's 1996 Annual Report to Stockholders. The unaudited quarterly results of operations are incorporated by reference to page 14 of the Company's 1996 Annual Report to Stockholders.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

11

PART III

Certain information required by Part III is omitted from this Report in that the Registrant will file a definitive proxy statement within 120 days after the end of its fiscal year pursuant to Regulation 14A (the "Proxy Statement") for its Annual Meeting of Stockholders to be held October 31, 1996 and certain information included therein is incorporated herein by reference. (The Compensation Committee Report and the stock performance graph of the Registrant's Proxy Statement are expressly not incorporated by reference herein.)

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning the Company's directors required by this Item is incorporated by reference to "Election of Directors" in the Company's Proxy Statement.

The executive officers of the Company, who are elected by and serve at the

discretion of the Board of Directors, are as follows:

NAME ----	AGE ---	POSITION WITH THE COMPANY -----
Roger D. Emerick	57	Chairman of the Board and Chief Executive Officer
Hsui-Sheng (Way) Tu	39	President
Henk J. Evenhuis	53	Executive Vice President, Finance, and Chief Financial Officer
Alexander M. Voshchenkov	51	Vice President and Chief Technical Officer
Raymond L. Degner	52	Senior Vice President
Thomas O. Yep	57	Senior Vice President
Robert C. Fink	61	Senior Vice President
Rick Friedman	39	Vice President
George R. Canavan	49	Vice President
Richard H. Lovgren	42	Vice President, General Counsel and Secretary

Roger D. Emerick joined the Company in 1982 as President, Chief Executive Officer and a Director. In 1984, he was elected Chairman of the Board of Directors. Mr. Emerick is currently a director Electroglas, Inc., Brooks Automation, Inc., Integrated Process Equipment Corp., and Semiconductor Equipment and Materials International (SEMI). From 1980 to 1982, he was Senior Vice President of Optical Specialties, Inc. which markets automated visual wafer inspection equipment for the semiconductor industry.

Hsui-Sheng (Way) Tu joined the Company in 1983 and has held various positions with the Company. In fiscal 1996, Mr. Tu was named President of Lam Research Corporation. In 1994, Mr. Tu was named Vice President of the Oxide Etch Business Unit. In 1992, he was named Vice President of Asian Operations. Before joining the Company, Mr. Tu was Process Engineering Supervisor for Fairchild Semiconductor.

Henk J. Evenhuis joined the Company in 1987 as Vice President of Finance and Administration and Chief Financial Officer and was named Senior Vice President of Finance in 1988. In fiscal 1996, Mr. Evenhuis was named Executive Vice President of the Company. Mr. Evenhuis is currently a director of Credence Systems Corporation, a test equipment manufacturer. Before joining the Company and since 1986, Mr. Evenhuis was Vice President of Finance and Administration and Chief Financial Officer for Corvus Systems Inc. He was Vice President of Finance and Administration and Chief Financial Officer of Trimedia Corporation from 1985, until Trimedia was acquired by Xidex Corporation in 1986.

Alexander M. Voshchenkov, Ph.D., joined the Company in 1993 as Vice President and Chief Technical Officer. Before joining the Company and since 1972, Dr. Voshchenkov was a Member of the Technical Staff at AT&T Bell Labs,

12

serving in various research and managerial positions. His most recent position was as Supervisor of the High Speed Electronics Department.

Raymond L. Degner, Ph.D., joined the Company in 1984 as Vice President of Engineering. In August 1996, he was named Senior Vice President of Etch Products. In January 1992, Dr. Degner was appointed Vice President of the Poly Etch Business Unit. In 1989 he was named Vice President of Research and Development. From 1983 to 1984, he served as Director of Development for Silicon Valley Group, a semiconductor equipment manufacturer.

Thomas O. Yep, Ph.D., joined the Company in 1985 as Director of Process Technology, and in 1989 was named Vice President of Process Technology. In August 1996, he was named to Senior Vice President of the CVD Products and Japan. In February 1992, he was named Vice President of the Metal Etch Business Unit. Before joining the Company and since 1980, he served as Manager for the plasma etch and thin film program at Intel Corporation. From 1969 to 1980, Dr. Yep served as solid-state physicist at Varian Central Research.

Robert C. Fink joined the Company in 1993 as Vice President and Chief Operating Officer. In August 1996 he was named Senior Vice President of Corporate Support. In 1995 he was named Senior Vice President of Corporate Development. Mr. Fink is currently a director of SEMI/SEMATECH and Consilium Inc. Before joining the Company and since 1988, Mr. Fink served as President of Drytek, Inc., a former subsidiary of General Signal Corporation. From 1984 to 1988, he was Director of VLSI Operations (North America) for ITT Corporation's

Semiconductor Division. Prior to ITT, Mr. Fink served 12 years with General Instrument Corporation's Microelectronics Division, serving most recently as Director of Worldwide Manufacturing Resources.

Rick Friedman joined the Company in 1993 as director of strategic development in Lam's Wilmington, Massachusetts facility. In February 1996, he was promoted to Vice President of Worldwide Sales and Service. In 1995, he was promoted to Vice President of North America Sales and Service. Prior to that he was Director of Western Region Sales and Service. Before joining Lam he held various positions at Drytek, Inc. (mid 1980's to 1993). His most recent position at Drytek, Inc. was North American sales manager.

George Canavan joined the Company in December 1994 as Director of Business Development for the Oxide Etch Business Unit. In August 1996, he was named to Vice President of Marketing. In December 1995, he was promoted to Vice President of Oxide Etch Business Unit. Prior to joining Lam, Mr. Canavan spent three years at Applied Materials, Inc. as global marketing manager and two years as Vice President of Sales and Marketing at ADVANTAGE Production Technology Inc. Prior to that he held various marketing positions at Applied Materials, Inc., and engineering and operations positions at Amdahl Corporation and National Semiconductor Corp.

Richard H. Lovgren joined the Company in 1995 as Vice President, General Counsel and Corporate Secretary. Before joining the Company and since 1979, Mr. Lovgren held various legal positions at Advanced Micro Devices, Inc. His most recent position at Advanced Micro Devices, Inc. was Director and Deputy General Counsel.

#### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's Proxy Statement under the heading "Executive Compensation and Other Information."

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Company's Proxy Statement under the heading "Election of Directors" and "Security Ownership of Certain Beneficial Owners and Management."

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Company's Proxy Statement under the heading "Certain Relationships and Related Transactions."

13

#### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- |     |   |       |
|-----|---|-------|
| (a) | (1) Financial Statements: See Index to Financial Statements, page                   | 15    |
|     | (2) Financial Statement Schedules: See Index to Financial Statement Schedules, page | 15    |
|     | (3) Exhibits: See Index to Exhibits, pages  | 19-21 |
| (b) | No reports on Form 8-K were filed during the fiscal year ended June 30, 1996        |       |

14

	PAGE (S) IN 1996 ANNUAL REPORT*
Consolidated Balance Sheets - June 30, 1996 and 1995 .....	20
Consolidated Statements of Income - Years Ended June 30, 1996, 1995 and 1994 .....	21
Consolidated Statements of Cash Flows - Years Ended June 30, 1996, 1995 and 1994 .....	22
Consolidated Statements of Stockholders' Equity Years - Ended June 30, 1996, 1995 and 1994 .....	23
Notes to Consolidated Financial Statements .....	24
Report of Independent Auditors .....	32

INDEX TO FINANCIAL STATEMENT SCHEDULES

	PAGE
Schedule II Valuation and Qualifying Accounts .....	18

\* Incorporated by reference to the Company's 1996 Annual Report to Stockholders.

15

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAM RESEARCH CORPORATION

By        /s/ ROGER D. EMERICK

Roger D. Emerick,  
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE  
OFFICER (PRINCIPAL EXECUTIVE OFFICER)

Dated: September 23, 1996

16

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Roger D. Emerick and Henk J. Evenhuis, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report of Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

SIGNATURES	TITLE	DATE
/s/ ROGER D. EMERICK Roger D. Emerick	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	September 23, 1996
/s/ HENK J. EVENHUIS Henk J. Evenhuis	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 23, 1996
/s/ DAVID G. ARSCOTT David G. Arscott	Director	September 23, 1996
/s/ JACK R. HARRIS Jack R. Harris	Director	September 23, 1996
/s/ GRANT M. INMAN Grant M. Inman	Director	September 23, 1996
/s/ OSAMU KANO Osamu Kano	Director	September 23, 1996

17

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS  
LAM RESEARCH CORPORATION

ADDITIONS

DESCRIPTION ----- COL. A -----	BALANCE AT BEGINNING OF PERIOD COL. B -----	CHARGED TO COSTS AND EXPENSES COL. C -----	CHARGED TO OTHER ACCOUNTS - DESCRIBE	DEDUCTIONS - DESCRIBE COL. D -----	BALANCE AT END OF PERIOD COL. E -----
YEAR ENDED JUNE 30, 1996					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$1,189,000	\$500,000	\$0	\$26,000 (3)	\$1,663,000
Product warranty and improvement reserves (2).....	\$40,986,000	\$101,743,000	\$0	\$80,549,000 (1)	\$62,180,000
YEAR ENDED JUNE 30, 1995					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$1,156,000	\$217,000	\$0	\$184,000 (3)	\$1,189,000
Product warranty and improvement reserves (2).....	\$21,609,000	\$65,296,000	\$0	\$45,919,000 (1)	\$40,986,000
YEAR ENDED JUNE 30, 1994					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$485,000	\$200,000	\$483,000 (4)	\$12,000 (3)	\$1,156,000
Product warranty and improvement reserves (2).....	\$7,549,000	\$43,599,000	\$0	\$29,539,000 (1)	\$21,609,000

(1) Costs incurred for warranty repair and/or product improvements during this year.

(2) Included in the Balance Sheet under the caption "Accrued expenses and other liabilities."

(3) Represents specific customer accounts written off.

(4) Includes \$236,000 related to the accounts receivable of Drytek, Inc. acquired July 1, 1993 and \$247,000 reclassification of reserve which was included in a liability account at June 30, 1993.

18

FOR THE FISCAL YEAR ENDED JUNE 30, 1996  
EXHIBIT INDEX

EXHIBIT -----	DESCRIPTION -----
3.1(20)	Certificate of Incorporation of the Registrant, as amended.
3.2(1)	ByLaws of the Registrant.
4.1(2)	Amended 1981 Incentive Stock Option Plan and Forms of Stock Option Agreements.
4.2(2)	Amended 1984 Incentive Stock Option Plan and Forms of Stock Option Agreements.
4.3(22)	Amended 1984 Employee Stock Purchase Plan and Form of Subscription Agreement.
4.4(22)	Amended 1991 Stock Option Plan and Forms of Stock Option Agreements.
4.5	1996 Performance-Based Restricted Stock Plan
10.1(3)	Lease dated November 10, 1986 between the Registrant and Northport Associates No. 17.
10.2(1)	Amendments to lease dated November 10, 1986 between the Registrant and Northport Associates No. 17.
10.3(4)	Form of Indemnification Agreement.
10.4(9)	Lease agreements dated January 1, 1990 between the Registrant and Aetna Life Insurance Company.
10.5(5)	Agreements dated July 6, 1988 between the Registrant and Sumitomo Metal Industries, Ltd.
10.7(5)	Roger D. Emerick Promissory Note and Deed of Trust.
10.8(7)	Patent Purchase and Sale Agreement dated February 22, 1989 between the Registrant and The Perkin-Elmer Corporation.
10.9(6)	Acquisition Agreement dated June 7, 1989 among the Registrant, Monkowski-Rhine, Incorporated and the shareholders of Monkowski-Rhine, Incorporated.
10.10(6)	Common Stock Purchase Agreement dated May 18, 1989 between the Registrant and Sumitomo Metal Industries, Ltd.
10.12(8)	ECR Technology License Agreement and Rainbow Technology License Agreement by and between Registrant and Sumitomo Metal Industries, Ltd.
10.13(10)	Amended and Restated Revolving Credit Agreement dated March 28, 1991 between First Interstate Bank, Silicon Valley Bank and Lam Research Corporation.
10.14(11)	Lease agreement dated July 24, 1991 between the Registrant and Northport Associates No. 18
10.15(12)	Technology Licensing Agreement dated October 25, 1991 between the Registrant and International Business Machines Corporation.
10.16(13)	License Agreement effective January 1, 1992 between the Registrant and Tokyo Electron Limited.
10.18(14)	Business Sales Agreement dated June 21, 1993 by and among Lam Research Corporation, Drytek Incorporated, and General Signal Corporation.
10.19(15)	Deferred Compensation Agreement with Roger D. Emerick.
10.20(17)	Credit Agreement dated June 24, 1994 between Lam Research Corporation and ABN Amro Bank
10.21(17)	Credit Agreement dated July 22, 1994 between Lam Research Corporation and Union Bank
10.22(16)	Trust Indenture
10.25(19)	Receivables Purchase Agreement between Lam Research Corporation and ABN-AMRO Bank N.V., Cayman Islands Branch
10.26(20)	Amendment to Receivables Purchase Agreement between Lam Research Corporation and ABN-AMRO Bank N.V., Cayman Islands Branch
10.27(20)	Receivables Purchase Agreement between Lam Research Corporation and ABN-AMRO Bank N.V., Tokyo Branch
10.28(20)	Guaranty of Supplemental Receivables Purchase Agreement between Lam Research Corporation and ABN-AMRO Bank N.V., Tokyo Branch dated June 28, 1995
10.29(22)	Credit Agreement Between Lam Research Corporation and ABN-AMRO Bank N.V. dated December 20, 1995
10.30(23)	Operating Lease Agreement Between Lam Research Corporation and the Industrial Bank of Japan, Limited dated March 27, 1996
10.31	Term Loan Agreement between The Sakura Bank and Lam Research Co. Ltd. dated June 26, 1996

10.32	The Continuing Guaranty between The Sakura Bank Ltd. and Lam Research Corporation dated June 26, 1996
11.1	Computation of Earnings Per Share
13.1	Annual Report to Stockholders for the year ended June 30, 1996 (to be deemed filed only to the extent required by the instruction to exhibits for reports on Form 10-K)
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP, Independent Auditors.
24	Power of Attorney (see page 17).
27	Financial Data Schedule

-- -----  
(1) Incorporated by reference to the Registrant's Registration Statement on Form 8-B filed with the Securities and Exchange Commission on April 11, 1990.

(2) Incorporated by reference to Post Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8 (No. 33-32160) filed with the Securities and Exchange Commission on May 10, 1990.

(3) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 28, 1986.

(4) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 1988.

(5) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1988.

(6) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1989.

(7) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 1989.

(8) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1989.

(9) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990.

(10) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1991.

(11) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1991.

(12) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1991.

(13) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1991.

(14) Incorporated by reference to Registrant's Report on Form 8-K dated July 1, 1993.

(15) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993.

(16) Incorporated by reference to Registrant's Registration Statement on Form S-3 (No. 33-61726) declared effective by the Securities and Exchange Commission on May 4, 1993.

(17) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1994.

(19) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

(20) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1995.

(21) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995

(22) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1995.

(23) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

-----  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
EXHIBITS  
TO  
FORM 10-K  
-----

LAM RESEARCH CORPORATION  
-----  
-----

LAM RESEARCH CORPORATION

PERFORMANCE-BASED RESTRICTED STOCK PLAN

(Effective January 1, 1996)

SECTION 1

ESTABLISHMENT AND PURPOSE

1.1 PURPOSE. Lam Research Corporation hereby establishes the Lam Research Corporation Performance-Based Restricted Stock Plan (the "Plan"). The Plan is intended to increase shareholder value and advance the success of the Company by (a) motivating key employees to perform to the best of their abilities, and (b) increasing the desire of key employees to continue their employment with the Company. The Plan's goals are to be achieved by providing such employees with restricted stock awards based on the achievement of goals relating to the financial performance of the Company. Payments under the Plan are intended to qualify as performance-based compensation within the meaning of Code Section 162(m).

1.2 EFFECTIVE DATE. The Plan is effective January 1, 1996, subject to the approval of a majority of the shares of the Company's common stock which are present in person or by proxy and entitled to vote at the 1995 Annual Meeting of Stockholders.

SECTION 2

DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

2.1 "ACTUAL AWARD" means, as to any Performance Period, the cash-denominated bonus amount which is earned by a Participant for such Performance Period and which is converted into Restricted Stock pursuant to Section 6.3, subject to Section 2.13 and the Administrator's authority under Section 5.5 to reduce the award otherwise determined by the Payout Formula.

2.2 "ADMINISTRATOR" means the Board or any of its Committees as shall be administering the Plan from time to time pursuant to Section 4 of the Plan.

2.3 "BOARD" means the Company's Board of Directors.

2.4 "CODE" means the Internal Revenue Code of 1986, as amended.

2.5 "COMMITTEE" means a committee, if any, appointed by the Board in accordance with Section 4.1 to administer the Plan.

2.6 "COMMON STOCK" means the Common Stock of the Company.

2.7 "COMPANY" means Lam Research Corporation, a Delaware corporation.

2.8 "COVERED EMPLOYEE" means a "covered employee" within the meaning of Section 162(m).

2.9 "DETERMINATION DATE" means as to any Performance Period, (a) the first day of the Performance Period, or (b) if later, the latest date possible which will not jeopardize qualification of payments under the Plan as Performance-Based Compensation.

2.10 "DISABILITY" means a permanent and total disability determined in accordance with uniform and nondiscriminatory standards adopted by the Committee from time to time.

2.11 "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

2.12 "FAIR MARKET VALUE" means, as of any date, the value of Common Stock determined as follows:

(a) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in THE WALL STREET JOURNAL or such other source as the Administrator deems reliable;

(b) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in THE WALL STREET JOURNAL or such other source as the Administrator deems reliable;

(c) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

2.13 "MAXIMUM AWARD" means as to any Participant for any Plan Year, [10,000] Shares, which is the maximum amount of Restricted Stock that may be awarded to a Participant for any Plan Year (the "Plan").

2.14 "PARTICIPANT" means as to any Performance Period, an employee of the Company who has been selected by the Committee for participation in the Plan for that Performance Period.

2.15 "PAYOUT FORMULA" means as to any Performance Period, the formula or payout matrix established by the Committee pursuant to Section 5.4 to determine the Actual Awards (if any) to be paid to Participants. The formula or matrix may differ from Participant to Participant.

2.16 "PERFORMANCE-BASED COMPENSATION" means compensation that is intended to qualify as "performance-based compensation" within the meaning of Section 162(m).

2.17 "PERFORMANCE GOALS" means the Company's financial goal(s) determined by the Committee to be applicable for a Performance Period, based on earnings, earnings per share, revenue growth or return on equity.

2.18 "PERFORMANCE PERIOD" means the quarterly, semi-annual or annual fiscal period of the Company that is established by the Administrator as the period over which the Company's financial performance is to be measured for purposes of the Plan.

2.19 "PLAN" means this LAM Research Corporation Performance-Based Restricted Stock Plan.

2.20 "PLAN YEAR" means the 1995 fiscal year of the Company and each succeeding fiscal year of the Company.

2.21 "RESTRICTED STOCK" means Shares awarded pursuant to Section 6, and subject to the Company's reacquisition right as specified in the Restricted Stock Agreement.

2.22 "RESTRICTED STOCK AGREEMENT" means an agreement in the form approved by the Administrator setting forth the terms and conditions applicable to the award of Restricted Stock.

2.23 "RETIREMENT AGE" means the attainment of age 60 and the completion of seven "years of service," as that term is defined under the Company's Executive Deferred Compensation Plan, as amended from time to time, or any successor plan thereto.

2.24 "SECTION 16 OFFICER" means an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

2.25 "SECTION 162(M)" means Section 162(m) of the Code, or any successor to Section 162(m), as that Section may be interpreted from time to time by the

Internal Revenue Service, whether by regulation, notice or otherwise.

2.26 "SHARE" means a share of the Common Stock, as adjusted in accordance with Section 3.2 of the Plan.

-3-

2.27 "TARGET AWARD" means the dollar-denominated target award that establishes a Participant's bonus opportunity under the Plan for a Performance Period, as determined by the Administrator in accordance with Section 5.3.

### SECTION 3

#### STOCK SUBJECT TO THE PLAN

3.1 NUMBER OF SHARES. Subject to the provisions of Section 3.2 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is 150,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock. If Shares are forfeited to the Company pursuant to a Restricted Stock Agreement, such Shares, unless the Plan shall have been terminated, shall be returned to the Plan and shall become available for reissuance under the Plan; provided, however, that any such Shares shall not return to the Plan if the Participant to whom they were originally issued received the benefits of ownership of such Shares (other than voting), as interpreted from time to time by the Securities and Exchange Commission in the context of Rule 16b-3 under the Securities Exchange Act of 1934, as amended ("Rule 16b-3").

3.2 ADJUSTMENTS IN AWARDS AND AUTHORIZED SHARES. In the event of any recapitalization, stock dividend, stock split, reverse stock split, split-up, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company, the Administrator shall adjust the number and class of Shares that may be delivered under the Plan, the number and class of Shares subject to outstanding awards, and any applicable numerical Share limits in such manner as the Administrator in its sole discretion shall determine to be appropriate to prevent the dilution or diminution of such awards.

### SECTION 4

#### ADMINISTRATION OF THE PLAN

4.1 COMPOSITION OF ADMINISTRATOR. The Board may establish a Committee to administer the Plan, and may establish different Committees with respect to (a) Participants who are Section 16 Officers, (b) Participants who are Covered Employees, and (c) Participants who are neither Section 16 Officers nor Covered Employees. With respect to participation by Section 16 Officers, the Plan shall be administered in such a manner as to permit the Plan and awards hereunder to comply with Rule 16b-3 as it applies to a plan intended to qualify thereunder as a discretionary grant or award plan. With respect to participants who are Covered Employees, the Plan shall be administered by two or more "outside directors" within the meaning of Section 162(m) in such a manner as to permit payments under the Plan to qualify as Performance-Based Compensation.

-4-

4.2 POWERS OF THE ADMINISTRATOR. Subject to the provisions of the Plan and, in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the discretion and authority necessary or appropriate to administer the Plan and to interpret the provisions of the Plan, consistent with the requirements of Rule 16b-3, as applicable, and with the qualification of payments under the Plan as Performance-Based Compensation with respect to Participants who are Covered Employees. Any determination, decision or action of the Administrator in connection with the construction, interpretation, administration or application of the Plan shall be final, conclusive and binding upon all persons, and shall be given the maximum deference permitted by law.

## SECTION 5

### SELECTION OF PARTICIPANTS AND DETERMINATION OF AWARDS

5.1 SELECTION OF PARTICIPANTS. On or prior to the Determination Date, the Administrator, in its sole discretion, shall select the employees of the Company who shall be Participants for the Performance Period. In selecting Participants, the Administrator shall choose employees whose responsibilities are likely to significantly influence the financial performance of the Company. No person shall be automatically entitled to participate in the Plan in any given Performance Period.

5.2 DETERMINATION OF PERFORMANCE GOALS. On or prior to the Determination Date, the Administrator shall establish WRITTEN Performance Goals for the Performance Period.

5.3 DETERMINATION OF TARGET AWARDS. On or prior to the Determination Date, the Administrator shall establish a WRITTEN Target Award for the Performance Period for each Participant.

5.4 DETERMINATION OF PAYOUT FORMULA OR FORMULAE. On or prior to the Determination Date, the Administrator shall establish a Payout Formula or Formulae for purposes of determining the Actual Award, if any, payable to each Participant. Each Payout Formula shall (a) be in WRITING, (b) be based on a comparison of actual performance to the Performance Goals, (c) provide for the payment of a Participant's Target Award if the Performance Goals for the Performance Period are achieved, and (d) provide for an Actual Award greater than or less than the Participant's Target Award, depending upon the extent to which actual performance exceeds or falls below the Performance Goals.

5.5 DETERMINATION OF ACTUAL AWARDS. After the end of each Performance Period, the Administrator shall certify IN WRITING the extent to which the Performance Goals applicable to each Participant for the Performance Period were achieved or exceeded. The Actual Award for each Participant shall be determined by applying the Payout Formula to the level of actual performance which has been certified by the Administrator. Notwithstanding any contrary provision of the Plan: (a) the Administrator, in its sole discretion, may eliminate or reduce the Actual Award payable to any Participant below that which otherwise would be payable under the Payout formula; (b) if a

-5-

Participant terminates employment with the Company prior to the end of a Performance Period, he or she shall not be entitled to the payment of an Actual Award for the Performance Period; and (c) no Participant's Actual Award under the Plan may exceed the Maximum Award.

## SECTION 6

### PAYMENT OF AWARDS

6.1 RIGHT TO RECEIVE PAYMENT. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right other than as an unsecured general creditor with respect to any payment to which he or she may be entitled under the Plan.

6.2 TIMING AND PAYMENT OF AWARDS. Payment of each Actual Award shall be made as soon as practicable after the end of the Performance Period during which the award was earned.

6.3 FORM OF PAYMENT. Each Actual Award shall be paid in the form of Restricted Stock. The number of Shares shall be determined by dividing the cash-denominated value of the Actual Award by the Fair Market Value of a Share on the last day of the Performance Period, rounded up to the nearest whole Share. The payment of the Actual Award shall be evidenced by a Notice of Award of Restricted Stock that, together with a Restricted Stock Agreement, shall specify the applicable vesting restrictions, the amount of Restricted Stock awarded, and such other terms and conditions as the Administrator, in its sole discretion, shall determine.

6.4 TERMINATION OF EMPLOYMENT; ACCELERATION OF VESTING. In the event a Participant's status as an employee of the Company terminates for any or no reason, any unvested Restricted Stock previously awarded to the Participant shall be forfeited to the Company without consideration to the Participant; provided that, in the event a Participant reaches Retirement Age, the Participant shall become 100% vested in all of his or her Restricted Stock and such Shares shall no longer be subject to the Company's reacquisition option contained in the Restricted Stock Agreement; provided further, that in the event the Participant's employment with the Company terminates as a result of his or her death or Disability, the Administrator may, in its sole discretion, vest all or any portion of any of his or her unvested Restricted Stock. Any Restricted Stock that is forfeited pursuant to this Section 6.4 shall again become available for award under this Plan in accordance with Section 3.1.

6.5 STOCK WITHHOLDING TO SATISFY TAX WITHHOLDING OBLIGATIONS. When a Participant incurs tax liability in connection with the acquisition or vesting of Shares under the Plan, which tax liability is subject to tax withholding under applicable tax laws, and the Participant is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Participant may satisfy the withholding tax obligation by electing to have the Company withhold, from the Shares acquired under the Plan that have vested, that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by a

-6-

Participant to have Shares withheld for this purpose shall be made in writing in a form acceptable to the Administrator and shall be subject to such uniform and nondiscriminatory restrictions and limitations as the Administrator may specify.

## SECTION 7

### GENERAL PROVISIONS

7.1 NONASSIGNABILITY. A Participant shall have no right to assign or transfer any interest under this Plan.

7.2 NO EFFECT ON EMPLOYMENT. The establishment and subsequent operation of the Plan, including eligibility as a Participant, shall not be construed as conferring any legal or other rights upon any Participant for the continuation of his or her employment for any Performance Period or any other period. Employment with the Company is on an at will basis only, unless provided differently in Participant's employment contract, if any, with the Company. The Company expressly reserves the right, which may be exercised at any time and without regard to when during a Performance Period such exercise occurs, to terminate any individual's employment with or without cause, and to treat him or her without regard to the effect which such treatment might have upon him or her as a Participant.

7.3 INDEMNIFICATION. Each person who is or shall have been a member of the Administrator shall be indemnified and held harmless by the Company against and from (a) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or a failure to act under the Plan, and (b) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights or indemnification to which such persons may be entitled under the Company's certificate of incorporation or bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them and hold them harmless.

7.4 BENEFICIARY DESIGNATIONS. If permitted by the Administrator, a Participant may name a beneficiary or beneficiaries to whom any vested but unpaid amount due to Participant under the Plan shall be paid in the event of the Participant's death. Each such designation shall revoke all prior

designations by the Participant and shall be effective only if given in a form and manner acceptable to the Administrator. In the absence of any such designation, any amounts remaining unpaid at the Participant's death shall be paid to the Participant's estate.

-7-

7.5 SEVERABILITY; GOVERNING LAW. If any provision of the Plan is found to be invalid or unenforceable, such provision shall not affect the other provisions of the Plan, and the Plan shall be construed in all respects as if such invalid provision had been omitted. The provisions of the Plan shall be governed by and construed in accordance with the laws of the State of California, with the exception of California's conflict of laws provisions.

7.6 AFFILIATES OF THE COMPANY. Requirements referring to employment with the Company or payment of awards may, in the Committee's discretion, be performed through the Company or any affiliate of the Company.

#### SECTION 8

##### AMENDMENT AND TERMINATION

8.1 AMENDMENT AND TERMINATION. The Board may at any time amend, alter, suspend or terminate the Plan, as it may deem advisable; provided that, to the extent necessary and desirable to comply with Rule 16b-3, Section 162(m), or any other applicable law, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as is required.

8.2 AFFECT OF AMENDMENT OR TERMINATION. Any such amendment, alteration, suspension or termination of the Plan shall not impair the rights of any Participant under any award (or right to receive an award), unless such Participant consents in writing to such amendment, alteration, suspension or termination. Such awards shall remain in full force and effect as if this Plan had not been amended or terminated.

#### SECTION 9

##### COMPLIANCE WITH LAWS AND REGULATIONS

Shares shall not be issued with respect to an award hereunder unless the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or quotation system upon which the Shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the non-issuance or sale of such Shares as to which such requisite authority shall not have been obtained.

-8-

#### SECTION 10

##### SHAREHOLDER APPROVAL

The Plan, the grant of Share awards and the acquisition of Shares shall be subject to approval by the holders of a majority of the Shares of Common Stock of the Company represented (in person or by proxy) and voting at a meeting. Such approval shall be solicited substantially in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder within such time as is required by Rule 16b-3, Section 162(m), or other applicable law.

TERM LOAN AGREEMENT

This Term Loan Agreement ("Agreement") is entered into as of June 26, 1996 by and between Lam Research Co., Ltd., a Japanese corporation ("Borrower"), and The Sakura Bank, Limited, a Japanese banking corporation ("Lender"). The parties hereto hereby agree as follows:

ARTICLE 1.  
DEFINITIONS, CONSTRUCTION AND ACCOUNTING TERMS

SECTION 1.1. DEFINED TERMS. As used in this Agreement, the following terms have the following meanings (terms defined in the singular to have the same meaning when used in the plural and vice versa):

"Affiliate" means, with respect to any Person (i) each Person that, directly or indirectly, owns or controls, whether beneficially or as a trustee, guardian or other fiduciary, ten percent (10%) or more of any class of Equity Securities of such Person; (ii) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such person; or (iii) each of such Person's officers, directors, joint venturers and partners; provided, however, that in no case shall Lender be deemed to be an Affiliate of Borrower, Guarantor or any Guarantor Subsidiary for purposes of this Agreement. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" means this Term Loan Agreement, as amended, supplemented, or modified from time to time.

"Business Day" means any day other than a Saturday, Sunday, or other day on which commercial lenders in Tokyo, Japan, are authorized or required to close.

"Capital Asset" means, with respect to any Person, any tangible fixed or capital asset owned or leased (in the case of a Capital Lease) by such Person, or any expense incurred by such Person that is required by GAAP to be reported as a non-current asset on such Person's balance sheet.

"Capital Expenditures means, with respect to any Person and any period, all amounts expended and indebtedness incurred or assumed by such Person during such period for the acquisition of Capital Assets (including all amounts expended and indebtedness incurred or assumed in connection with Capital Leases).

-1-

"Capital Leases" means any and all lease obligations that, in accordance with GAAP, are required to be capitalized on the books of a lessee.

"Change of Control" means (i) the acquisition of beneficial ownership by any "person" or "group" (as defined in Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, of a direct or indirect interest in more than thirty-three percent (33%) of the voting power of the then outstanding capital stock of Guarantor; (ii) a merger or consolidation of Guarantor with any other Person or the merger of any other Person into Guarantor or any other transaction, as a result of which the stockholders of Guarantor immediately prior to such transaction own, in the aggregate, less than a majority of the voting power of the outstanding capital stock of the surviving or resulting entity; or (iii) the first day on which a majority of the members of the Board of Directors of Guarantor are not Continuing Directors. A "Continuing Director" shall mean any director of the Board of Directors of Guarantor who is either (a) a member of such Board of Directors on the Closing Date, or (b) nominated or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or elections.

"Closing Date" means June 28, 1996 or such other date as may be mutually agreed to by Lender and Borrower.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations and published interpretations thereof.

"Commonly Controlled Entity" means an entity, whether or not incorporated, which is under common control with Guarantor within the meaning of Section 414(b) or 414(c) of the Code.

"Contingent Obligation" means, with respect to any Person, without duplication (i) any Guaranty Obligation of that Person; and (ii) any direct or indirect obligation or liability, contingent or otherwise, of that Person (a) in respect of any letters of credit, acceptances, bank guaranties, surety bonds or similar instrument issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings, (b) as a partner or joint venturer in any partnership or joint venture, or (c) incurred pursuant to any interest rate swap, currency swap, forward, cap, floor or other similar contract that is not entered into in connection with a bona fide hedging operation that provides offsetting benefits to such Person. The amount of any Contingent Obligation shall (subject, in the case of Guaranty Obligations, to the last sentence of the definition of "Guaranty Obligation") be deemed equal to the maximum reasonably anticipated liability in respect thereof.

"Contractual Obligation" of any Person means, any indenture, note, lease, loan agreement, security, deed of trust, mortgage, security agreement, guaranty, instrument, contract, agreement or other form of contractual obligation or undertaking to which such Person is a party or by which such Person or any of its property is bound.

-2-

"Default" means any of the events specified in Section 7.1, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Dollars" and the sign "\$" mean lawful money of the United States of America.

"Environmental Laws" means all Requirements of Law relating to the protection of human health and the environment, including, without limitation, all Requirements of Law, pertaining to reporting, licensing, permitting, transportation, storage, disposal, investigation, and remediation of emissions, discharges, releases, or threatened releases of Hazardous Materials, chemical substances, pollutants, contaminants, or hazardous or toxic substances, materials or wastes, whether solid, liquid, or gaseous in nature, into the air, surface water, groundwater, or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of chemical substances, pollutants, contaminants, or hazardous or toxic substances, materials, or wastes, whether solid, liquid, or gaseous in nature.

"Equity Securities" means (i) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting); and (ii) all warrants, options and other rights to acquire any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereof.

"Event of Default" means any of the events specified in Section 7.1, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Financial Statements" mean, with respect to any accounting period for any Person, statements of income, shareholders' equity and cash flows of such Person for such period, and a balance sheet of such Person as of the end of such period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year if such period is less than a full fiscal year or, if such period is a full fiscal year, corresponding figures from the preceding annual audit, all prepared in reasonable detail and in

accordance with GAAP.

"Fixed Rate" means three and one-one hundredth percent (3.01%) per annum.

"Funded Debt" of any Person means, without duplication, all Indebtedness of such Person as described in clauses (i) -(iv) of the definition of Indebtedness.

"GAAP" means generally accepted accounting principles in the United States; provided, however, with respect to Borrower "GAAP" means generally accepted accounting principles in Japan.

-3-

"Governmental Authority" means any domestic or foreign national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including, without limitation, any central bank or comparable authority.

"Governmental Charges" means, with respect to any Person, all levies, assessments, fees, claims or other charges imposed by any Governmental Authority upon such Person or any of its property or otherwise payable by such Person.

"Governmental Rule" means any law, rule, regulation, ordinance, order, code interpretation, judgment, decree, directive, guidelines, policy or similar form of decision of any Governmental Authority.

"Guarantor" means Lam Research Corporation, a Delaware corporation.

"Guarantor Subsidiary" means any Subsidiary of Guarantor; provided, however, for purposes of this definition only, Borrower shall not be included within the definition of Guarantor Subsidiary but Borrower's Subsidiaries shall be included within such definition.

"Guaranty" means that certain Continuing Guaranty dated as June 26, 1996 executed by Guarantor for the benefit of Lender, as amended from time to time in accordance with its terms, which shall be satisfactory to Lender in all respects.

"Guaranty Obligation" means, with respect to any Person, any direct or indirect liability of that Person with respect to any Indebtedness, lease, dividend, or other obligation (the "primary obligations") of another Person (the "primary obligor"), including any obligation of that Person, whether or not contingent (i) to purchase, repurchase or otherwise acquire such primary obligations or any property constituting direct or indirect security therefor; (ii) to advance or provide funds (a) for the payment or discharge of any such primary obligation, or (b) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor; or (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any primary obligation of the ability of the primary obligor to make payment of such primary obligation; or (iv) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof. The amount of any Guaranty Obligation shall be deemed equal to the stated or determinable amount of the primary obligation in respect of which such Guaranty Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof.

"Indebtedness" of any Person means, without duplication:

-4-

(i) All obligations of such Person evidenced by notes, bonds, debentures or other similar instruments and all other obligations of such Person for borrowed money;

(ii) All obligations of such Person for the deferred purchase price of property or services (including obligations under

credit facilities which secure or finance such purchase price and obligations under synthetic leases), other than trade payables incurred by such Person in the ordinary course of its business on ordinary terms;

(iii) All obligations of such Person under conditional sale or other title retention agreements with respect to property acquired by such Person (to the extent of the value of such property if the rights and remedies of the seller or lender under such agreement in the event of default are limited solely to repossession or sale of such property);

(iv) All obligations of such Person as lessee under or with respect to Capital Leases;

(v) All obligations of such Person with respect to accounts receivable and related rights and property sold, assigned or transferred by such Person with recourse to such Person;

(vi) All Contingent Obligations of such Person; and

(vii) All Indebtedness of other Persons of the types described in clauses (i) - (vi) above to the extent secured by (or for which any holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien in any property (including accounts and contract rights) of such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"Interest Payment Date" means the 28th day of June, September, December and March commencing with the 28th day of September, 1996; provided, however, if any Interest Payment Date would end on a day other than a Business Day, such Interest Payment Date shall be extended to the succeeding Business Day.

"Interest Rate Funding Costs" means, with respect to any prepayment of the Loan pursuant to Section 2.5, the amount (if any) by which (i) the interest that would have been payable on the principal amount prepaid had it not been paid until the applicable Principal Payment Date(s) determined in accordance with Section 2.5(b) (computing such interest at a rate equal to the Fixed Rate less seven tenths of one percent per annum); exceeds (ii) the interest that would have been recoverable by Lender by placing the principal amount prepaid on deposit in the certificate of deposit market or such other investment market on which the Fixed Rate was originally determined by Lender (or any comparable market if such certificate of deposit market or other investment market is no longer available to Lender), for a period starting on the

-5-

date on which the principal amount was prepaid and ending on the applicable Principal Payment Date(s) determined in accordance with Section 2.5(b).

"Japan Development Bank Indebtedness" has the meaning set forth in Section 2.8.

"Lending Office" means the Principal Office of Lender or such other office of Lender (or of an affiliate of Lender) as Lender may from time to time specify to Borrower as the office at which the Loan is to be made and maintained.

"Lien" means any mortgage, deed of trust, pledge, security interest, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority, or other security agreement or preferential arrangement, charge, or encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction to evidence any of the foregoing).

"Loan" has the meaning set forth in Section 2.1 of this Agreement.

"Loan Document(s)" means this Agreement, the Note, the Guaranty and all other documents, agreements or instruments executed by Borrower or Guarantor in connection with this Agreement, the Note or the Loan.

"Loan Fee" has the meaning set forth in Section 2.6 of this Agreement.

"Loan Maturity Date" means June 28, 2001, or if June 28, 2001 is not a Business Day, the preceding Business Day.

"Material Adverse Effect" means a material adverse effect on (i) the business, assets, operations or financial condition of Borrower and Guarantor (determined on a consolidated basis); (ii) the ability of Borrower or Guarantor to pay or perform any of its obligations under any of the Loan Documents to which it is a party; or (iii) the rights and remedies of Lender under this Agreement or any of the other Loan Documents.

"Material Subsidiary" means any Guarantor Subsidiary whose (i) total assets exceed ten percent (10%) of the consolidated total assets of Guarantor, Borrower and the Guarantor Subsidiaries at any time; or (ii) gross revenues exceed five percent (5%) of the consolidated gross revenues of Guarantor, Borrower and the Guarantor Subsidiaries at any time.

"Multiemployer Plan" means any multiemployer plan within the meaning of Section 3(37) of ERISA maintained or contributed to by Guarantor or any Commonly Controlled Entity.

-6-

"Note" means that certain Promissory Note in the principal amount of Y2,300,000,000 dated June 26, 1996 made by Borrower and payable to the order of Lender, as amended from time to time in accordance with its terms, which shall be satisfactory to Lender in all respects.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Permitted Indebtedness" has the meaning set forth in Section 6.1.

"Permitted Lien" has the meaning set forth in Section 6.2.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority, or other entity of whatever nature.

"Plan" means any employee benefit plan within the meaning of Section 3(3) of ERISA maintained or contributed to by Guarantor or any Commonly Controlled Entity, other than a Multiemployer Plan.

"Prime Rate" means that floating rate per annum of interest announced by Lender from time to time and designated by Lender as its "prime" or "reference" rate of interest for loans made from its San Francisco, California, Agency. The Prime Rate is determined by Lender from time to time as a means of pricing credit extensions to some customers and is neither tied to any external rate of interest or index nor necessarily the lowest rate of interest charged by Lender at any given time for any particular class of customers or credit extensions.

"Principal Office" means Lender's office at 1-2 Yurakucho, 1-chome, Chiyoda-ku, Tokyo, 100, Japan.

"Principal Payment Date" means the 28th day of June, September, December and March commencing with the 28th day of September, 1997; provided, however, if any Principal Payment Date would end on a day other than a Business Day, such Principal Payment Date shall be extended to the succeeding Business Day.

"Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

"Requirement of Law" applicable to any Person means (i) the Articles or Certificate of Incorporation and By-laws, Partnership Agreement or other organizational or governing documents of such Person; (ii) any Governmental Rule applicable to such Person; (iii) any license, permit, approval, or other authorization granted by any Governmental Authority to or for the benefit of such Person; or (iv) any judgment, decision or determination of any Governmental Authority or arbitrator, in each case applicable to or binding upon such person or any of its property or to which such Person or any of its property is subject

"Senior Funded Debt" of any Person means any Funded Debt which is not Subordinated Debt.

"Senior Indebtedness" of any Person means, without duplication:

- (i) all Senior Funded Debt of such Person;
- (ii) all Contingent Obligations of such Person;
- (iii) all obligations of such Person with respect to any synthetic leases; and
- (iv) all obligations of such Person with respect to any sale, transfer or assignment of accounts receivable and related rights and property by such Person with recourse to such Person.

"Subordinated Debt" means any subordinated debt permitted by Section 6.1(xi).

"Subsidiary" of any Person means (i) any corporation of which more than 50% of the issued and outstanding Equity Securities having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries; (ii) any partnership, joint venture, or other association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time owned and controlled by such Person, by such Person and one or more of the other Subsidiaries or by one or more of such Person's other Subsidiaries; or (iii) any other Person included in the Financial Statements of such Person on a consolidated basis.

"Yen" and the sign "Y" mean lawful money of Japan.

"1995 Guarantor Credit Agreement" means that certain Credit Agreement dated as of December 20, 1995, by and between Guarantor, the lenders named therein and ABN AMRO Bank N.V., San Francisco International Branch, as agent for such lenders, as amended from time to time in accordance with its terms.

SECTION 1.2. CONSTRUCTION. Unless the context of this Agreement or the other Loan Documents otherwise clearly require, references to the plural include the singular and the singular the plural. The words "hereof," "herein," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, Section and Subsection references are to this Agreement unless otherwise specified.

SECTION 1.3. ACCOUNTING TERMS AND CLASSIFICATIONS. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting classifications and determinations hereunder shall be made, all amounts relevant in determining whether Borrower is complying with the covenants contained herein shall be calculated, and all financial statements delivered to Lender hereunder shall be prepared in accordance with GAAP as applied to corporate accounting. If GAAP changes during the term of this Agreement such that any covenants contained herein or in the Guaranty would then be calculated in a different manner or with different components, Borrower, on behalf of itself and the Guarantor, and Lender agree to negotiate in good faith to amend this Agreement and the Guaranty in such respects as are necessary to conform those covenants as criteria for evaluating Borrower's and Guarantor's financial condition to substantially the same criteria as were effective prior to such change in GAAP; provided, however, until Borrower, Guarantor and Lender amend this Agreement and the Guaranty, all such covenants shall be calculated in accordance with GAAP as in effect immediately prior to such change.

ARTICLE 2.  
AMOUNT AND TERMS OF LOAN

SECTION 2.1. TERM LOAN. Subject to the terms and conditions contained in this Agreement, on the Closing Date Lender agrees to lend to Borrower and Borrower agrees to borrow from Lender the sum of Two Billion Three Hundred Million Yen (¥2,300,000,000) ("Loan"). Borrower's obligation to repay the Loan shall be evidenced by the Note. Lender is hereby authorized by Borrower to (i) endorse on the Note the amount of each payment by Borrower of principal and interest; or (ii) enter the amount of such payment in Lender's records, including, if applicable, Lender's computer records, which endorsement or entry shall, in the absence of manifest error, be prima facie evidence of the outstanding balance of the Loan; provided, however, that the failure to make such endorsement or entry with respect to any payment shall not limit or otherwise affect the obligations of Borrower under this Agreement or the Note.

SECTION 2.2. INTEREST; DEFAULT RATE. The Loan shall bear interest on the unpaid principal amount thereof from the Closing Date through maturity (whether by acceleration or otherwise) at the Fixed Rate. Any amounts not paid by Borrower when due hereunder, including without limitation, any principal and, to the extent allowed by applicable law, interest (including principal and interest coming due by reason of acceleration pursuant to Section 7.2), shall bear interest from the date on which such payment was due until paid, at a rate per annum equal to the greater of (i) the Fixed Rate plus two percent (2%); or (ii) the Prime Rate plus two percent (2%) ("Default Rate"). Interest payable at the Default Rate shall be immediately due and payable by Borrower without any notice or demand by Lender. All computations of interest and fees under any Loan Document shall be calculated by Lender on the basis of a year consisting of 365 days, upon actual days elapsed.

-9-

SECTION 2.3. PAYMENT OF INTEREST. Subject to the provisions of this Agreement to the contrary, interest shall be due and payable by Borrower on each Interest Payment Date following the Closing Date until the principal amount of the Loan is repaid in full.

SECTION 2.4. PAYMENT OF PRINCIPAL.

(a) MANDATORY INSTALLMENT PRINCIPAL PAYMENTS. Installments of principal in an amount equal to One Hundred Forty Three Million Seven Hundred Fifty Thousand Yen (¥143,750,000) shall be due and payable by Borrower on each Principal Payment Date.

(b) LOAN MATURITY PAYMENT. Borrower shall repay the outstanding principal amount of the Loan together with all accrued but unpaid interest on the Loan Maturity Date.

SECTION 2.5. PREPAYMENTS.

(a) OPTIONAL PREPAYMENT. Borrower may prepay all or any portion of the Note; provided, however that any such prepayment of the Note (i) shall be in a principal amount of not less than Fifty Million Yen (¥50,000,000); (ii) shall include payment of accrued interest on such prepaid principal; (iii) shall be made only upon at least ten (10) Business Days prior written notice to Lender; and (iv) shall include payment by Borrower of any Interest Rate Funding Costs. Additionally, no partial prepayments shall be permitted if an Event of Default shall have occurred and be continuing. Not later than eight (8) Business Days after receipt of Borrower's notice as required by clause (iii) above, Lender shall deliver to Borrower a certificate setting forth the amount owed as Interest Rate Funding Costs. Such certificate shall be accompanied by or include a statement of a responsible officer of Lender describing in reasonable detail the calculation thereof and which shall be conclusive and binding upon Borrower absent manifest error and so long as Lender has acted in good faith. Borrower shall pay to Lender the amount shown as Interest Rate Funding Costs on the certificate at the time of its prepayment hereunder, and in any event, no later than ten (10) days after its receipt of same.

IN CONNECTION WITH THE PRECEDING PARAGRAPH, BORROWER AGREES THAT FOLLOWING AN EVENT OF DEFAULT BY BORROWER HEREUNDER AND THE ACCELERATION OF THE MATURITY OF THE LOAN BY LENDER, A TENDER OF PAYMENT OF THE AMOUNT

NECESSARY TO SATISFY THE ENTIRE INDEBTEDNESS OF THE LOAN MADE AT ANY TIME BY BORROWER OR BY ANYONE ON BEHALF OF BORROWER SHALL BE DEEMED A VOLUNTARY PREPAYMENT. BORROWER HEREBY EXPRESSLY ACKNOWLEDGES AND UNDERSTANDS THAT BORROWER SHALL BE LIABLE FOR PAYMENT OF INTEREST RATE FUNDING COSTS SET FORTH IN THE PRECEDING PARAGRAPH UPON ACCELERATION OF

-10-

THE MATURITY OF THE LOAN, WHETHER SUCH ACCELERATION SHALL BE DUE TO BORROWER'S DEFAULT OR OTHERWISE.

(b) APPLICATION OF PREPAYMENTS. In the event of any partial prepayment of the Note, such partial prepayment shall be applied first to the unamortized portion of the principal due and payable on the Loan Maturity Date and then to the amortized portion of principal due and payable in installments as provided herein in reverse chronological order.

SECTION 2.6. LOAN FEE. Borrower shall pay to Lender, on or prior to the Closing Date, a non-refundable Loan Fee in the amount of Two Million Three Hundred Thousand Yen (¥2,300,000).

SECTION 2.7. METHOD OF PAYMENT. Borrower shall make each payment under this Agreement and under the Note not later than 11:00 A.M. (Tokyo time) on the date when due in lawful money of Japan to Lender at its Principal Office for the account of the Lending Office in immediately available funds. Borrower hereby authorizes Lender, if and to the extent payment is not made when due under this Agreement or under the Note, to charge from time to time against any account of Borrower with Lender any amount so due.

SECTION 2.8. USE OF PROCEEDS. The proceeds of the Loan shall be used by Borrower (i) to repay all of the existing indebtedness of Borrower to the Japan Development Bank ("Japan Development Bank Indebtedness"); (ii) to fund leasehold improvements to Borrower's facilities; and (iii) for general corporate purposes. Borrower will not, directly or indirectly, use any part of such proceeds for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock, or for any purpose which violates, or is inconsistent with, Regulation X of such Board of Governors.

SECTION 2.9. CHANGE OF LAW. Notwithstanding any other provision herein, if after the date of this Agreement any change in any applicable Governmental Rule shall change the basis of taxation (including without limitation the imposition of any stamp tax or transaction tax) of payments to Lender of the principal of or interest on the Loan made or any fees or other amounts payable hereunder (other than changes in respect of taxes imposed on the income of Lender by the jurisdiction in which Lender is organized or has its principal office or is operating or doing business or, in either case, by any political subdivision or taxing authority therein), or shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by Lender or shall impose on Lender or the interbank Euroyen or Eurodollar market any other condition affecting this Agreement or the Loan, and the result of any of the foregoing shall be to increase the cost to Lender of making or maintaining the Loan or to reduce the amount of any sum received or receivable by Lender hereunder (whether of principal, interest or otherwise) by an amount deemed by Lender to be material, then Borrower will pay to Lender such

-11-

additional amount or amounts as will compensate Lender for such additional costs incurred or reduction suffered. Lender will notify Borrower that Lender is entitled to compensation pursuant to this Section as promptly as practicable after it determines to request such compensation; provided, however, any request for compensation shall be made by Lender within 90 days of the later of (i) the date any of the foregoing changes or events becomes effective; or (ii) the date Lender knew or reasonably should have learned of such change or event.

SECTION 2.10. CAPITAL ADEQUACY. If Lender shall have determined that the

applicability of any Governmental Rule adopted pursuant to or arising out of the July 1988 report of the Basel Committee on Banking Regulations and Supervisory Practices entitled "International Convergence of Capital Measurement and Capital Standards," or the adoption after the date hereof of any Governmental Rule regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by any Governmental Authority charged with the interpretation or administration thereof, or compliance by Lender (or any Lending Office of Lender) with any request or directive regarding capital adequacy (whether or not having the force of law) of any such Governmental Authority, has or would have the effect of reducing the rate of return on Lender's capital as a direct consequence of this Agreement or the Loan to a level below that which Lender could have achieved but for such adoption, change or compliance by an amount deemed by Lender to be material, then from time to time Borrower shall pay to Lender such additional amount or amounts as will compensate Lender for any such reduction suffered. Allocations by Lender for purposes of this Section shall be conclusive; provided, that the principles on which such allocations are made are reasonable and non-discriminatory, the calculations employed to apply such allocations are mathematically accurate and Lender has acted in good faith. Lender will notify Borrower that Lender is entitled to compensation pursuant to this Section as promptly as practicable after it determines to request such compensation; provided, however, any request for compensation shall be made by Lender within 90 days of the later of (i) the date any of the foregoing changes or events becomes effective; or (ii) the date Lender knew or reasonably should have learned of such change or event.

SECTION 2.11. LENDER'S CERTIFICATE. A certificate of Lender setting forth such amount or amounts as shall be necessary to compensate Lender as specified in Sections 2.09 or 2.10 above, as the case may be, shall be delivered to Borrower and shall be conclusive and binding upon Borrower absent manifest error and so long as Lender has acted in good faith. Any such certificate shall be accompanied by or include a statement of a responsible officer of Lender describing in reasonable detail the calculation thereof and certifying that such request for compensation is consistent with Lender's treatment generally of customers similar to Borrower having similar provisions in their agreements with Lender. Borrower shall pay Lender the amount shown as due on any such certificate delivered by Lender within ten (10) days after its receipt of the same. In the event that Lender recovers any such amount from third parties, it shall refund the same to Borrower. Failure on the part of Lender to demand compensation for any increased costs or reduction in amounts received or receivable or

-12-

reduction in return on capital with respect to any period shall not constitute a waiver of Lender's right to demand compensation with respect to such period or any other period. The protection of this Section shall be available to Lender regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

ARTICLE 3.  
CONDITIONS PRECEDENT

Lender's obligation to make the Loan and all other obligations of Lender hereunder are conditioned upon the satisfaction by Borrower of all of the following conditions:

SECTION 3.1. CLOSING DOCUMENTS. On or before the Closing Date, Lender shall have received and approved the following documents or materials, each of which shall be in the form and substance satisfactory to Lender and, where appropriate, duly executed (and acknowledged where necessary) and delivered by the appropriate parties thereto:

(a) this Agreement, the Note and the Guaranty;

(b) opinions of counsel for Borrower and Guarantor dated as of the Closing Date, and addressed to Lender;

(c) a certificate of the President of Borrower certifying (i) a copy of the Articles of Incorporation and Bylaws of Borrower (or similar corporate charter documents of Borrower under the laws of Japan), including any amendments or addendum; (ii) resolutions of the board of directors of

Borrower authorizing the execution, delivery, and performance of this Agreement and the Note by Borrower; and (iii) the names, corporate office and true signatures of the officers or directors of Borrower authorized to sign this Agreement and the Note on behalf of Borrower;

(d) a certificate of the President or Secretary of Guarantor certifying (i) a copy of the Articles of Incorporation and Bylaws of Guarantor, including any amendments or addendum thereto, together with a certificate of status issued by the Delaware Secretary of State with respect to Guarantor as a domestic Delaware corporation and a certificate of status issued by the California Secretary of State with respect to Guarantor as a foreign corporation doing business in California; (ii) resolutions of Guarantor's board of directors authorizing the execution, delivery, and performance of the Guaranty by Guarantor; and (iii) the names, corporate office and true signatures of the officers of Guarantor authorized to sign the Guaranty on behalf of Guarantor;

(e) the Loan Fee; and

-13-

(f) such other documents, agreements, instruments, certificates and opinions as Lender may reasonably require.

SECTION 3.2. REPRESENTATIONS CORRECT; NO DEFAULT. On and as of the Closing Date:

(a) the representations and warranties contained herein and in each written document executed and delivered by Borrower to Lender in connection with this Agreement shall be true and correct in all material respects on and as of the Closing Date to the same extent as though made on and as of such date; and

(b) no Default or Event of Default shall have occurred and be continuing.

-14-

ARTICLE 4.  
REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender that:

SECTION 4.1. INCORPORATION, GOOD STANDING, AND DUE QUALIFICATION. Borrower is a corporation duly incorporated, validly existing, and in good standing under the laws of the jurisdiction of its incorporation; has the corporate power and authority to own its assets and to transact the business in which it is now engaged or proposed to be engaged in; and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required.

SECTION 4.2. CORPORATE POWER AND AUTHORITY. The execution, delivery, and performance by Borrower and Guarantor of the Loan Documents to which each is a party have been duly authorized by all necessary corporate action and do not and will not (i) require any consent or approval of the stockholders of such corporation; (ii) contravene such corporation's charter or bylaws; (iii) violate any provision of any Requirement of Law presently in effect having applicability to such corporation; (iv) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease, or instrument to which such corporation is a party or by which it or its properties may be bound or affected; (v) result in, or require, the creation or imposition of any Lien, upon or with respect to any of the properties now owned or hereafter acquired by such corporation; and (vi) cause such corporation to be in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination, or award or any such indenture, agreement, lease, or instrument.

SECTION 4.3. LEGALLY ENFORCEABLE AGREEMENT. This Agreement is, and each of the other Loan Documents (other than the Guaranty) when delivered under this

Agreement will be, legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, and other similar laws affecting creditors' rights generally. The Guaranty, when delivered by Guarantor to Lender, will be, legal, valid, and binding obligations of Guarantor enforceable against Guarantor in accordance with its respective terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, and other similar laws affecting creditors' rights generally.

SECTION 4.4. FINANCIAL STATEMENTS. The Financial Statements of Guarantor, Borrower and the Guarantor Subsidiaries which have been delivered to Lender (i) are in accordance with the books and records of Guarantor, Borrower and Guarantor Subsidiaries, which have been maintained in accordance with good business practice; (ii) have been prepared in conformity with GAAP; and (iii) fairly present the financial conditions and results of operations of Guarantor, Borrower and the Guarantor Subsidiaries as of the date thereof and for the period covered thereby. Neither Borrower, Guarantor nor any Guarantor Subsidiary has any contingent obligations, liability for taxes or other outstanding obligations which are material in the aggregate,

-15-

except as disclosed in the audited Financial Statements of Guarantor, Borrower and the Guarantor Subsidiaries for the fiscal year ending June 30, 1995, and the unaudited Financial Statements of Guarantor, Borrower and the Guarantor Subsidiaries for the fiscal quarter ending March 31, 1996, furnished by Borrower to Lender prior to the date hereof

SECTION 4.5. OWNERSHIP OF BORROWER. Guarantor directly owns and controls, free and clear of all Liens, one hundred percent (100%) of the Equity Securities of Borrower.

SECTION 4.6. LITIGATION. There is no pending or threatened in writing action or proceeding against or affecting Borrower, Guarantor or any Guarantor Subsidiaries before any court, governmental agency, arbitrator or other Governmental Authority which is reasonably likely, in any one case or in the aggregate, to have a Material Adverse Effect.

SECTION 4.7. NO VIOLATION OR DEFAULT. Neither Borrower, Guarantor nor any Guarantor Subsidiary is in violation of or in default with respect to (i) any Requirement of Law applicable to such Person; or (ii) any Contractual Obligation of such Person, including without limitation, Contractual Obligations arising from or relating to the 1995 Guarantor Credit Agreement (nor is there any waiver in effect which, if not in effect, would result in such a violation or default), which violation or default is reasonably likely to have a Material Adverse Effect. Without limiting the generality of the foregoing, neither Borrower, Guarantor nor any Guarantor Subsidiary (i) has violated any Environmental Laws; (ii) has any liability under any Environmental Laws; or (iii) has received notice or other communication of an investigation or is under by any Governmental Authority having authority to enforce Environmental Laws, where such violation, liability or investigation is reasonably likely to have a Material Adverse Effect.

SECTION 4.8. TITLE; POSSESSION UNDER LEASES. Borrower, Guarantor and each Guarantor Subsidiary (i) own and have good and marketable title (without regard to minor defects of title) to the real property owned by Borrower, Guarantor and each Guarantor Subsidiary, as reflected in the most recent Financial Statements of Guarantor delivered to Lender (except those assets and properties disposed of since the date of such Financial Statements in compliance with the 1995 Guarantor Credit Agreement); (ii) have valid leasehold interests in all real property leased by Borrower, Guarantor and each Guarantor Subsidiary; (iii) own and have good title (without regard to minor defects of title) to all their other respective properties and assets which are material to the business of Borrower, Guarantor and each Guarantor Subsidiary, as reflected in the most recent Financial Statements of Guarantor delivered to Lender (except those assets and properties disposed of since the date of such Financial Statements in compliance with the 1995 Guarantor Credit Agreement); and (iv) own and have good title (without regard to minor defects of title) to all respective properties and assets acquired by Borrower and its Subsidiaries since such date which are material to the business of Borrower, Guarantor and each Guarantor Subsidiary (except those assets and properties disposed of in compliance with the 1995

Guarantor Credit Agreement). Such assets and properties are subject to no Lien, except for Permitted

-16-

Liens. Each of Borrower, Guarantor and the Guarantors Subsidiaries enjoys peaceful and undisturbed possession under all leases, except for any failure to enjoy such possession which (alone or in the aggregate with any other such failures) is not reasonably likely to have a Material Adverse Effect.

SECTION 4.9. NO AGREEMENTS TO SELL ASSETS. Neither Borrower, Guarantor nor any Guarantor Subsidiary has any legal obligation, absolute or contingent, to any Person to sell the assets of Borrower, Guarantor or any Guarantor Subsidiary (other than sales in the ordinary course of business), or to effect any merger, consolidation or other reorganization of Borrower, Guarantor or any Guarantor Subsidiary or to enter into any agreement with respect thereto.

SECTION 4.10. PATENT AND OTHER RIGHTS. Borrower, Guarantor and each Guarantor Subsidiary own or license under validly existing agreements, and have the full right to license without the consent of any other Person, all patents, licenses, trademarks, trade names, trade secrets, service marks, copyrights and all rights with respect thereto, which are required to conduct their businesses as now conducted.

SECTION 4.11. GOVERNMENTAL CHARGES AND OTHER INDEBTEDNESS. Borrower, Guarantor and each Guarantor Subsidiary have filed or caused to be filed all tax returns which are required to be filed by them. Borrower, Guarantor and each Guarantor Subsidiary have paid, or made provision for the payment of, all taxes and other Governmental Charges which have or may have become due pursuant to said returns or otherwise and all other indebtedness, except such Governmental Charges or indebtedness, if any, which are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided or which are not reasonably likely to have a Material Adverse Effect if unpaid.

SECTION 4.12. ERISA. Guarantor and each Commonly Controlled Entity are in compliance in all material respects with all applicable provisions of ERISA. Neither a Reportable Event nor a Prohibited Transaction has occurred and is continuing with respect to any Plan; no notice of intent to terminate a Plan has been filed nor has any Plan been terminated; no circumstances exist which constitute grounds entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings; neither Guarantor nor any Commonly Controlled Entity contributes to or has any material contingent liabilities to a Multiemployer Plan; neither Guarantor nor any Commonly Controlled Entity has incurred any material liability (including secondary liability) to any Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan; Guarantor and each Commonly Controlled Entity have met their minimum funding requirements under ERISA with respect to all of their Plans and the present value of all vested benefits under each Plan does not exceed the fair market value of all Plan assets allocable to such benefits, as determined on the most recent valuation date of the Plan and in accordance with the provisions of ERISA; and neither Guarantor nor any Commonly Controlled Entity has incurred any liability to the PBGC under ERISA.

-17-

SECTION 4.13. ACCURACY OF INFORMATION FURNISHED. None of the Loan Documents and none of the other certificates, statements or information furnished to Lender by or on behalf of Borrower, Guarantor or any Guarantor Subsidiary in connection with the Loan Documents or the transactions contemplated thereby contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Borrower covenants that, unless otherwise consented to in writing by Lender, until payment in full of all amounts outstanding under the Loan Documents and satisfaction of all other obligations of Borrower under the Loan Documents, Borrower shall comply with, or cause compliance with, each of the following covenants:

SECTION 5.1. REPORTING REQUIREMENTS. Borrower shall furnish or cause to be furnished to Lender the following, each in such form and such detail as Lender shall reasonably request:

(a) QUARTERLY FINANCIAL STATEMENTS. As soon as available and in no event later than fifty (50) days after the last day of each fiscal quarter of Guarantor, a copy of the Financial Statements of Guarantor, Borrower and each of the Guarantor Subsidiaries (prepared on a consolidated basis) for such quarter and for the fiscal year to date, certified by the president or chief financial officer of Guarantor to present fairly the financial condition, results of operations and other information reflected therein and to have been prepared in accordance with GAAP (subject to normal year-end audit adjustments).

(b) ANNUAL FINANCIAL STATEMENTS. As soon as available and in no event later than one hundred (100) days after the close of each fiscal year of Guarantor, (i) copies of the audited Financial Statements of Guarantor, Borrower and each of the Guarantor Subsidiaries (prepared on a consolidated basis) for such year, prepared by independent certified public accountants of recognized national standing acceptable to Lender; and (ii) copies of the unqualified opinions (or qualified opinions reasonably acceptable to Lender) and management letters delivered by such accountants in connection with all such Financial Statements. Additionally, Borrower shall deliver to Lender not later than 100 days after the close of each fiscal year of Borrower, a balance sheet and statement of income for Borrower calculated on a stand alone basis (which items may be prepared internally by Borrower), certified by the president or chief financial officer of Borrower to present fairly the financial condition, results of operations and other information reflected therein.

-18-

(c) COMPLIANCE CERTIFICATES. Contemporaneously with the quarterly and year-end Financial Statements required by Sections 5.1(a) and (b): (i) a compliance certificate of the President of Borrower which states that no Event of Default and no Default has occurred and is continuing, or, if any such Event of Default or Default has occurred and is continuing, a statement as to the nature thereof and what action Borrower proposes to take with respect thereto; and (ii) a compliance certificate of the President or Chief Financial Officer of Guarantor which states that (a) no event of default has occurred and is continuing under the 1995 Guarantor Credit Agreement or, if any such event of default has occurred and is continuing, a statement as to the nature thereof and what action Guarantor proposes to take with respect thereto, and (b) for the quarter or year covered by such Financial Statements or as of the last day of such quarter or year (as the case may be), the calculation of the financial ratios and tests provided in Section 3.1 of the Guaranty.

(d) NOTICE OF LITIGATION, EVENT OF DEFAULT. As soon as possible and in no event later than five (5) Business Days after any officer or director of Borrower or Guarantor knows of the occurrence or existence of: (i) any actual litigation or threatened litigation which has a reasonable likelihood of leading to actual litigation, suits, claims or disputes against Guarantor, Borrower or any of the Guarantor Subsidiaries involving potential monetary damages payable by Guarantor, Borrower or any of the Guarantor Subsidiaries of \$5,000,000 or more alone and/or \$10,000,000 or more in the aggregate; (ii) any other event or condition which is reasonably likely to have a Material Adverse Effect; or (iii) any Default or Event of Default; the statement of the president or chief financial officer of Borrower setting forth details of such event, condition, Default or Event of Default and the action which Borrower proposes to take with respect thereto.

(e) ERISA REPORTS. As soon as possible, and in any event within 30 days after Borrower or Guarantor knows or has reason to know that any

circumstances exist that constitute grounds entitling the PBGC to institute proceedings to terminate a Plan or Multiemployer Plan subject to ERISA with respect to Guarantor or any Commonly Controlled Entity, and promptly but in any event within two Business Days of receipt by Borrower, Guarantor or any Commonly Controlled Entity of notice that the PBGC intends to terminate a Plan or Multiemployer Plan or appoint a trustee to administer the same, and promptly but in any event within five Business Days of the receipt of notice concerning the imposition of withdrawal liability with respect to Guarantor or any Commonly Controlled Entity, Borrower or Guarantor will deliver to the Bank a certificate of the chief financial officer of Guarantor setting forth all relevant details and the action which Guarantor proposes to take with respect thereto.

(f) REGISTRATION STATEMENTS. As soon as available and in no event later than five (5) Business Days after they are sent, made available or filed, copies of (i) all registration statements and reports filed by Borrower, Guarantor or any of the Guarantor Subsidiaries with any securities exchange or the Securities and

-19-

Exchange Commission (including, without limitation, all 10-Q, 10-K and 8-Q reports); (ii) all reports, proxy statements and financial statements sent or made available by Borrower, Guarantor or any of the Guarantor Subsidiaries to its security holders; and (C) all press releases and other similar public concerning any material developments in the business of Borrower, Guarantor or any of the Guarantor Subsidiaries made available by Borrower, Guarantor or any of the Guarantor Subsidiaries to the public generally.

(g) OTHER INFORMATION. Such other instruments, agreements, certificates, opinions, statements, documents and information relating to the operations or condition (financial or otherwise) of Borrower, Guarantor or any of the Guarantor Subsidiaries, and compliance by Borrower and Guarantor with the terms of the Loan Documents as Lender may from time to time reasonably request.

SECTION 5.2. BOOKS AND RECORDS. Borrower, Guarantor and each of the Guarantor Subsidiaries shall at all times keep proper books of record and account in which full, true and correct entries will be made of their transactions in accordance with GAAP, or if, with respect to Borrower or any Guarantor Subsidiary for which United States accounting principles are inapplicable, generally accepted accounting principles in the jurisdiction in which Borrower or such Guarantor Subsidiary is organized, as the case may be.

SECTION 5.3. INSPECTIONS. Borrower, Guarantor and each of the Guarantor Subsidiaries shall permit any Person designated by Lender, upon reasonable notice and during normal business hours, to visit and inspect any of the properties and offices of Borrower, Guarantor and any of the Guarantor Subsidiaries, to examine the books and records of Borrower, Guarantor and the Guarantor Subsidiaries and make copies thereof and to discuss the affairs, finances and accounts of Borrower, Guarantor and the Guarantor Subsidiaries with, and to be advised as to the same by, their officers, auditors and accountants, all at such times and intervals as Lender may reasonably request.

SECTION 5.4. INSURANCE. Borrower, Guarantor and each of the Guarantor Subsidiaries shall (i) carry and maintain insurance of the types and in the amounts customarily carried from time to time during the term of this Agreement by others engaged in substantially the same business as such Person and operating in the same geographic area as such Person, including, but not limited to, fire, public liability, property damage and workers' compensation; and (ii) deliver to Lender from time to time, as Lender may request, schedules setting forth all insurance then in effect.

SECTION 5.5. GOVERNMENTAL CHARGES AND OTHER INDEBTEDNESS. Borrower, Guarantor, and each of the Guarantor Subsidiaries shall promptly pay and discharge when due (i) all taxes and other Governmental Charges prior to the date upon which penalties accrue thereon; (ii) all indebtedness which, if unpaid, could become a Lien upon the property of Borrower, Guarantor or any Guarantor Subsidiary; and (iii) all other Indebtedness which, if unpaid, is reasonably likely to have a Material Adverse

Effect, except such taxes and Indebtedness as may in good faith be contested or disputed, or for which arrangements for deferred payment have been made, provided that in each such case appropriate reserves are maintained to the reasonable satisfaction of Lender.

SECTION 5.6. GENERAL BUSINESS OPERATIONS. Except as permitted in Section 6.4, each of Borrower, Guarantor and each of the Guarantor Subsidiaries shall (i) preserve and maintain its corporate existence and all of its rights, privileges and franchises reasonably necessary to the conduct of its business; provided, however, that from time to time, Guarantor may, in the ordinary course of business, dissolve any Guarantor Subsidiary which is not a Material Subsidiary or a Subsidiary of Borrower, so long as both immediately before and after giving effect to such dissolution, no Default or Event of Default shall have occurred and be continuing; (ii) conduct its business activities in compliance with all Requirements of Law and Contractual Obligations applicable to such Person, the violation of which is reasonably likely to have a Material Adverse Effect, and (iii) keep all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted. Guarantor shall maintain its chief executive office and principal place of business in the United States.

SECTION 5.7. MAINTENANCE OF OWNERSHIP OF BORROWER. At all times Guarantor shall directly own and control, free and clear of all Liens, one hundred percent (100%) of the Equity Securities of Borrower.

SECTION 5.8. PARI PASSU RANKING. Borrower shall take, or cause to be taken, all actions necessary to ensure that the obligations of Borrower under the Loan Documents are and continue to rank at least PARI PASSU in right of payment with all other unsecured Senior Indebtedness of Borrower.

ARTICLE 6.  
NEGATIVE COVENANTS

Borrower covenants that, unless otherwise consented to in writing by Lender, until payment in full of all amounts outstanding under the Loan Documents and satisfaction of all other obligations of Borrower under the Loan Documents, Borrower shall comply with, or cause compliance with, each of the following covenants:

SECTION 6.1. INDEBTEDNESS. Neither Borrower, Guarantor nor any Guarantor Subsidiaries shall create, incur, assume or permit to exist any indebtedness except for the following ("Permitted Indebtedness"):

(i) the obligations of Borrower with respect to the Loan Documents and the obligations of Guarantor with respect to the 1995 Guarantor Credit Agreement and related documents;

(ii) Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries listed in Schedule 6.1 attached hereto and existing as of the date of this Agreement;

(iii) Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries arising from the endorsement of instruments for collection in the ordinary course of Borrower's, Guarantor's or a Guarantor Subsidiary's business;

(iv) Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries for trade accounts payable, provided that (a) such accounts arise in the ordinary course of business, and (b) no material part of such account is more than ninety (90) days past due (unless subject to a bona fide dispute and for which adequate reserves have been established);

(v) Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries under interest rate protection, currency swap and foreign

exchange arrangements, provided that all such arrangements are entered into in connection with bona fide hedging operations and not for speculation;

(vi) Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries under purchase money loans (including any synthetic leases) and Capital Leases incurred by Borrower, Guarantor or any Guarantor Subsidiaries to finance the acquisition by such Person of real property, fixtures or equipment provided that in each case (a) such Indebtedness is incurred by such Person at the time of, or not later than ninety (90) days after, the acquisition by such Person of the property so financed, and (b) such Indebtedness does not exceed the purchase price of the property so financed;

(vii) Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries under initial or successive refinancings of any Indebtedness permitted by clause (i) or (ii) above, provided that (a) the principal amount of any such refinancing does not exceed the principal amount of the Indebtedness being refinanced, and (b) the material terms and provisions of any such refinancing (including maturity, interest rate, redemption, covenants, events of default and subordination provisions) are no less favorable to the lenders thereunder than the Indebtedness being refinanced;

(viii) Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries with respect to surety, appeal, indemnity, performance or other similar bonds in the ordinary course of business;

(ix) Guaranty Obligations of Guarantor in respect of Permitted Indebtedness of Borrower and the Guarantor Subsidiaries;

(x) Indebtedness of Guarantor to Borrower or any Guarantor Subsidiaries, Indebtedness of Borrower or any Guarantor Subsidiaries to

-22-

Guarantor or Indebtedness of Borrower or any Guarantor Subsidiaries to each other, provided that any Indebtedness of Guarantor to Borrower or any Guarantor Subsidiaries and any Indebtedness of Borrower or any Guarantor Subsidiaries to Guarantor shall be subject to the other provisions of this Article 6;

(xi) Unsecured Indebtedness of Guarantor which is subordinated to the obligations of Guarantor under the 1995 Guarantor Credit Agreement, provided that the payment terms, interest rate and subordination provisions of such Indebtedness are reasonably acceptable to the Required Lenders (as defined in the 1995 Guarantor Credit Agreement);

(xii) Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries with respect to the sale, transfer or assignment of accounts receivable of Borrower, Guarantor and the Guarantor Subsidiaries and certain rights and property related to the collection of or constituting proceeds of such accounts receivable, provided that such sale, assignment or transfer is (a) in the ordinary course of business, (b) for cash, (c) with recourse to Borrower, Guarantor or such Guarantor Subsidiary in an amount not to exceed the aggregate face amount of the accounts receivable sold and certain additional interest charges with respect to such Indebtedness, (d) otherwise permitted under Section 6.3(vii), and (e) both immediately before and after giving effect to such Indebtedness, no Default or Event of Default shall have occurred and be continuing; and

(xiii) Other unsecured Senior Indebtedness of Borrower, Guarantor and the Guarantor Subsidiaries in addition to that otherwise permitted above, provided that both immediately before incurring and after giving effect to such unsecured Senior Indebtedness, Guarantor shall be in compliance with the financial covenants set forth in Section 3.1 of the Guaranty and no other Default or Event of Default shall have occurred and be continuing.

SECTION 6.2. LIENS. Neither Borrower, Guarantor nor any of the Guarantor Subsidiaries shall create, incur, assume or permit to exist any Lien on or with respect to any of its assets or property of any character, whether now owned or hereafter acquired, except for the following ("Permitted Liens"):

(i) Liens in favor of the agent or any lender under the 1995

Guarantor Credit Agreement securing any of the obligations of Guarantor under the 1995 Guarantor Credit Agreement; provided, however, no such Lien shall be permitted with respect to the assets or property of Borrower or any Subsidiaries of Borrower;

(ii) Liens listed in Schedule 5.02(b) of the 1995 Guarantor Credit Agreement and existing on the date of such agreement;

-23-

(iii) Liens for taxes or other Governmental Charges not at the time delinquent or thereafter payable without penalty or being contested in good faith, provided that adequate reserves for the payment thereof have been established in accordance with GAAP;

(iv) Liens of carriers, warehousemen, mechanics, materialmen, vendors and landlords and other similar Liens imposed by law incurred in the ordinary course of business for sums not overdue or being contested in good faith, provided that adequate reserves for the payment thereof have been established in accordance with GAAP;

(v) Deposits under workers' compensation, unemployment insurance and social security laws or to secure the performance of bids, tenders, contracts (other than for the repayment of borrower money) or leases, or to secure statutory obligations of surety or appeal bonds or to secure indemnity, performance or other similar bonds in the ordinary course of business;

(vi) Zoning restrictions, easements, rights-of-way, title irregularities and other similar encumbrances, which alone or in the aggregate are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of Borrower, Guarantor or any of the Guarantor Subsidiaries;

(vii) Banker's Liens and similar Liens (including set-off rights) in respect of bank deposits;

(viii) Liens on property or assets of any corporation which becomes a Guarantor Subsidiary after the date of this Agreement, provided that (a) such Liens exist at the time the stock of such corporation is acquired by Guarantor, and (b) such Liens were not created in contemplation of such acquisition by Guarantor;

(ix) Judgement Liens, provided that such Liens do not have a value in excess of \$5,000,000 or such Liens are released, stayed, vacated or otherwise dismissed within sixty (60) days after issue or levy and, if so stayed, such stay is not thereafter removed;

(x) Rights of vendors or lessors under conditional sale agreements, Capital Leases or other title retention agreements (including synthetic leases), provided that, in each case (a) such rights secure or otherwise relate to Permitted Indebtedness, (b) such rights do not extend to any property other than property acquired with the proceeds of such Permitted Indebtedness (other than cash pledged to secure obligations under synthetic leases in an amount not to exceed, together with any amounts pledged under clause (xiii), \$70,000,000 in the aggregate during the term of this Agreement provided that both immediately before and after giving effect to any such cash collateralization, Guarantor shall

-24-

be in compliance with the financial covenants set forth in Section 3.1 of the Guaranty and no other Default or Event of Default shall have occurred and be continuing), and (c) such rights do not secure any Indebtedness other than such Permitted Indebtedness;

(xi) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties and in connection with

the importation of goods in the ordinary course of Borrower's, Guarantor and the Guarantor Subsidiaries' businesses;

(xii) Liens securing Indebtedness which constitutes Permitted Indebtedness under clause (vi) of Section 6.1 provided that, in each case, such Lien (a) covers only those assets, the acquisition of which was financed by such Permitted Indebtedness, and (a) secures only such Permitted Indebtedness;

(xiii) Liens securing Indebtedness which constitutes Permitted Indebtedness under clause (xii) of Section 6.1 provided that, in each case, such Lien (a) secures only such Permitted Indebtedness, and (b) such Liens do not extend to any assets or property other than the assets or property sold (other than cash pledged under certain circumstances to secure such Permitted Indebtedness in an aggregate amount not to exceed, together with any amounts pledged under clause (x), \$70,000,000 in the aggregate during the term of this Agreement, provided that both immediately before and after given effect to any such cash collateralization, Guarantor shall be in compliance with the financial covenants set forth in Section \_\_\_ of the Guaranty and no other Default or Event of Default shall have occurred and be continuing);

(xiv) Liens on the property or assets of any Guarantor Subsidiary, other than a Subsidiary of Borrower, in favor of Guarantor, Borrower, or any Guarantor Subsidiary;

(xv) Liens incurred in connection with the extension, renewal or refinancing of the Indebtedness secured by the Liens described in clause (ii) or (xii) above, provided that any extension, renewal or replacement Lien (a) is limited to the property covered by the existing Lien and (b) secures Indebtedness which is no greater in amount and has material terms no less favorable to lenders than the Indebtedness secured by the existing Lien; and

(xvi) Liens on insurance proceeds in favor of insurance companies with respect to the financing of insurance premiums.

SECTION 6.3. ASSET DISPOSITIONS. Neither Borrower, Guarantor nor any Guarantor Subsidiaries shall sell, lease, transfer or otherwise dispose of any of its assets or property, whether now owned or hereafter acquired, except for the following:

-25-

(i) Sales of inventory by Borrower, Guarantor and the Guarantor Subsidiaries in the ordinary course of their businesses;

(ii) Sales of surplus, damaged, worn or obsolete equipment or inventory for not less than fair market value;

(iii) Sales or other dispositions of Investments permitted by clause (i) of Section 6.5 for not less than fair market value;

(iv) Sales or assignments of defaulted receivables to a collection agency in the ordinary course of business;

(v) Licenses by Borrower, Guarantor or any Guarantor Subsidiaries of its patents, copyrights, trademarks, trade names and service marks in the ordinary course of its business;

(vi) Sales or other dispositions of assets and property by Guarantor to Borrower or any Guarantor Subsidiaries or by Borrower or any Guarantor Subsidiaries to each other or Guarantor, provided that the terms of any such sales or other dispositions by or to such parties are terms which are no less favorable to such parties than would prevail in the market for similar transactions between unaffiliated parties dealing at arm's length;

(vii) Sales, for cash, in the ordinary course of business of (a) accounts receivable of foreign Guarantor Subsidiaries (other than Subsidiaries of Borrower) and certain rights and property of foreign Guarantor Subsidiaries (other than Subsidiaries of Borrower) related to the collection of or constituting proceeds of such accounts receivable, and (b)

accounts receivable of Guarantor and certain rights and property of Guarantor related to the collection of or constituting proceeds of such accounts receivable in an aggregate amount not to exceed at any time fifteen percent (15%) of Guarantor's aggregate accounts receivable, as measured at the end of each fiscal quarter of Guarantor, and in each case with respect to the foregoing clauses (a) and (b), with or without recourse, at a discount rate not to exceed twenty percent (20%); and

(viii) Other sales, leases, transfers and disposals of assets and property by Guarantor or any Guarantor Subsidiary (other than sales, leases, transfers and disposals of accounts receivable and related rights and property which shall be permitted only as expressly set forth in clause (vii) above), provided that the aggregate value of all such assets and property (based upon the greater of the fair market or book value of such assets and property) so sold, leased, transferred or otherwise disposed of in any fiscal year on a rolling four quarter basis or does not exceed ten percent (10%) of Guarantor's Tangible Net Worth (as defined in the Guaranty) as measured at the end of each fiscal quarter of Guarantor.

-26-

SECTION 6.4. MERGERS AND ACQUISITIONS. Neither Borrower, Guarantor nor any Guarantor Subsidiaries shall consolidate with or merge into any other Person or permit any other Person to merge into it, acquire or establish any subsidiary or acquire all or substantially all of the assets of any other Person, except for the following:

(i) any wholly owned Guarantor Subsidiary (other than a Subsidiary of Borrower) may merge into any other wholly owner Guarantor Subsidiary;

(ii) (a) Borrower, Guarantor, or any wholly-owned Guarantor Subsidiary may acquire all or substantially all of the assets of any Person, (b) any Person may merge into Borrower, Guarantor or any wholly-owned Guarantor Subsidiary, and (c) Borrower, Guarantor or any wholly-owned Guarantor Subsidiary may establish or acquire Subsidiaries, provided that:

(1) in the event of any merger by any Person into Borrower, Guarantor or any wholly-owned Guarantor Subsidiary, Borrower, Guarantor or such wholly-owned Guarantor Subsidiary is the surviving entity; and

(2) both immediately prior to and after giving effect to such merger, acquisition or establishment of a Subsidiary (y) the aggregate cost of any such merger, acquisition or establishment of a Subsidiary shall not exceed the amounts permitted under Section 6.5(ii), and (z) no Default of Event of Default shall have occurred and be continuing.

SECTION 6.5. INVESTMENTS. Neither Borrower, Guarantor nor any of the Guarantor Subsidiaries shall make any Investment (as defined in the 1995 Guarantor Credit Agreement) except for Investments in the following:

(i) Investments in accordance with the terms of Borrower's Cash Investment Guidelines (as defined in the 1995 Guarantor Credit Agreement) as in effect on the closing date of the transaction contemplated under the 1995 Guarantor Credit Agreement; and

(ii) Other Investments, provided that the aggregate amount of such other Investments plus the aggregate cost of assets acquired, mergers consummated and Subsidiaries established or acquired by Borrower, Guarantor and the Guarantor Subsidiaries pursuant to Section 6.4 does not exceed in any fiscal year (a) \$50,000,000 for any amounts paid in cash, and (b) \$100,000,000 for any amounts paid with shares of common stock of Guarantor (as determined according to the stock price of such shares on the date of transfer).

SECTION 6.5. DIVIDENDS AND REDEMPTIONS. Neither Borrower, Guarantor nor any Guarantor Subsidiaries shall pay any dividends or make any distributions on its Equity Securities; purchase, redeem, retire, defease or otherwise acquire for value of any of its Equity Securities; return any capital to any holder of its Equity Securities as

such; make any distribution of assets, Equity Securities, obligations or securities to any holder of its Equity Securities as such; or set apart any sum for any such purpose; except Borrower may repurchase its Equity Securities from management pursuant to valid stock repurchase arrangements, provided that the aggregate amount of such repurchases does not exceed \$10,000,000 in any fiscal year.

SECTION 6.6. CHANGE IN BUSINESS. Neither Borrower, Guarantor nor any Guarantor Subsidiaries shall engage, either directly or indirectly through Affiliates, in any business substantially different from its present business; provided, however, that Guarantor Subsidiaries which are not Material Subsidiaries may operate as holding companies or special tax purpose entities as may be necessary for the overall operation of the business of Borrower, Guarantor and the Guarantor Subsidiaries, so long as the terms of this Agreement and the other Loan Documents would not otherwise be violated.

SECTION 6.7. INDEBTEDNESS PAYMENTS. Neither Borrower, Guarantor nor any Guarantor Subsidiaries shall amend, modify or otherwise change any of the subordination or other provisions of any document, instrument or agreement evidencing Subordinated Debt in a manner which adversely affects the material rights of Lender. Neither Borrower, Guarantor nor any Guarantor Subsidiary shall purchase, redeem or prepay any Subordinated Debt, now or hereafter outstanding, except for any de minimis redemption required in connection with the conversion of any class of Subordinated Debt into equity.

SECTION 6.8. ERISA. Neither Guarantor nor any Commonly Controlled Entity shall (i) adopt or institute any Plan that is an employee pension benefit plan within the meaning of Section 3(2) of ERISA; (ii) take any action which will result in the partial or complete withdrawal, within the meanings of sections 4203 and 4205 of ERISA, from a Multiemployer Plan; (iii) engage or permit any Person to engage in any transaction prohibited by section 406 of ERISA or section 4975 of the Code involving any Plan or Multiemployer Plan which would subject either borrower or any ERISA Affiliate to any tax, penalty or other liability including a liability to indemnify; (iv) incur or allow to exist any accumulated funding deficiency (within the meaning of section 412 of the Code or section 302 of ERISA), (v) fail to make full payment when due of all amounts due as contributions to any Plan or Multiemployer Plan; (vi) fail to comply with the requirements of section 4980B of the Code or Part 6 of Title I(B) of ERISA; or (vii) adopt any amendment to any Plan which would require the posting of security pursuant to section 401(a)(29) of the Code, where singly or cumulatively, the above would have a Material Adverse Effect.

SECTION 6.9. TRANSACTIONS WITH AFFILIATES. Neither Borrower, Guarantor nor any Guarantor Subsidiaries shall enter into any Contractual Obligation with any Affiliate or engage in any other transaction with any Affiliate except upon terms at least as favorable to Borrower, Guarantor or such Guarantor Subsidiary as an arms-length transaction with unaffiliated Persons.

SECTION 6.10. ACCOUNTING CHANGES. Neither Borrower, Guarantor nor any Guarantor Subsidiaries shall change (i) its fiscal year (currently July 1 through June 30); or (ii) its accounting practices except as required by GAAP.

#### ARTICLE 7. EVENTS OF DEFAULT

SECTION 7.1. EVENTS OF DEFAULT. The occurrence of any of the following events or conditions shall constitute an Events of Default under this Agreement and any other Loan Documents:

(a) Borrower (i) shall fail to pay when due any principal or interest on the Loan and such failure shall continue for three (3) Business Days after such payment was due; or (ii) shall fail to pay when due any other payment required under the terms of this Agreement or any of the other Loan Documents and such failure shall continue for five (5) Business Days after such other payment was due; or

(b) Borrower, Guarantor or any Guarantor Subsidiaries shall fail to observe or perform any covenant, obligation, condition or agreement set forth in Section 5.7 or Article 6 hereof or in Section 3.1 of the Guaranty; or

(c) Borrower, Guarantor or any Guarantor Subsidiaries shall fail to observe or perform any other covenant, obligation, condition or agreement contained in this Agreement or the other Loan Documents and such failure shall continue for fifteen (15) days or, provided that Borrower, Guarantor or such Guarantor Subsidiary is making good faith efforts to cure such failure and such failure can be cured within thirty (30) days, such failure shall continue for thirty (30) days; or

(d) Any representation, warranty, certificate, information or other statement (financial or otherwise) made or furnished by or on behalf of Borrower, Guarantor or any Guarantor Subsidiaries to Lender in or in connection with this Agreement or any of the other Loan Documents, or as an inducement to Lender to enter into this Agreement, shall be false, incorrect, incomplete or misleading in any material respect when made or furnished; or

(e) Borrower, Guarantor or any Guarantor Subsidiaries (i) shall fail to make any payment when due under the terms of any bond, debenture, note or other evidence of Indebtedness in an amount of \$10,000,000 or more to be paid by such Person (excluding this Agreement and the other Loan Documents but including any other evidence of Indebtedness of Guarantor, Borrower of any Guarantor Subsidiaries to Lender) and such failure shall continue beyond any period of grace provided with respect thereto, or shall default in the observance or performance of any other agreement, term or condition contained in any such

-29-

bond, debenture, note or other evidence of Indebtedness, and the effect of such failure or default is to cause, or permit the holder or holders thereof to cause such Indebtedness to become due prior to its stated date of maturity; (ii) shall fail to pay on its stated date of maturity Indebtedness in an amount of \$10,000,000 or more under any such bond, debenture, note or other evidence of Indebtedness and such failure shall continue beyond any period of grace provided with respect thereto; or (iii) there occurs any termination, liquidation, unwind or similar event under any agreement or instrument relating to the purchase of receivables of Borrower, Guarantor or any Guarantor Subsidiary and as a result Borrower, Guarantor or such Guarantor Subsidiary is required to repurchase sold receivables in an amount of \$10,000,000 or more; or

(f) Borrower, Guarantor or any Guarantor Subsidiaries shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property; (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature; (iii) make a general assignment for the benefit of its or any of its creditors; (iv) be dissolved or liquidated in full or in part; (v) become insolvent (as such term may be defined or interpreted under any applicable statute); (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it; or (vii) take any action for the purpose of effecting any of the foregoing; or

(g) Proceedings for the appointment of a receiver, trustee, liquidator or custodian of Borrower, Guarantor or any Guarantor Subsidiaries or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to Borrower, Guarantor or any Guarantor Subsidiaries or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within sixty (60) days of commencement; or

(h) (i) A final judgment or order for the payment of money in excess of \$10,000,000 (exclusive of amounts covered by insurance issued by an insurer not an Affiliate of Guarantor and otherwise satisfying the requirements set forth in Section 5.4 shall be rendered against Borrower, Guarantor or any Guarantor Subsidiaries and the same shall remain undischarged for a period of sixty (60) days during which execution shall not be effectively stayed or (ii) any judgment, writ, assessment, warrant of attachment, tax lien or execution or similar process shall be issued or levied against a substantial part of the property of Borrower, Guarantor or any Guarantor Subsidiaries and such judgment, writ, or similar process shall not be released, stayed, vacated or otherwise dismissed within sixty (60) days after issue or levy; or

-30-

(i) Any Loan Document or any material term thereof shall cease to be, or be asserted by Borrower, Guarantor or any Guarantor Subsidiaries not to be, a legal, valid and binding obligation of Borrower, Guarantor or any Guarantor Subsidiaries enforceable in accordance with its terms; or

(j) Any Reportable Event (as such term is used under ERISA) which constitutes grounds for the termination of any Plan by the PBGC or for the appointment of a trustee by the PBGC to administer any Plan shall occur, or any Plan shall be terminated within the meaning of Title IV of ERISA or a trustee shall be appointed by the PBGC to administer any Plan; or

(k) A Change of Control shall occur; or

(l) An event of default, or event which with the giving of notice, the passage of time or both, would become an event of default, shall have occurred and be continuing under the 1995 Guarantor Credit Agreement; or

(m) Any event(s) or condition(s) which is(are) reasonably likely to have a Material Adverse Effect shall occur or exist; or

(n) Prior to June 28, 1997, Borrower shall have failed to repay in full all of the Japan Development Bank Indebtedness.

SECTION 7.2. REMEDIES. Upon the occurrence of any Event of Default, Lender may, at its option: (i) declare all sums of interest and principal remaining outstanding on the Loan and all other sums outstanding under or in respect of this Agreement or any other Loan Document to be immediately due and payable, without notice of default, presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by Borrower; (ii) exercise any additional right or remedy which Lender may have under this Agreement or any other Loan Document; and (iii) exercise any additional right or remedy which Lender may have at law or in equity. Notwithstanding anything to the contrary in the preceding sentence, if an Event of Default described in Section 7.1(f) or Section 7.1(g) above shall occur, all sums of interest and principal remaining outstanding on the Loan and all other sums outstanding under or in respect of any Loan Document shall be deemed automatically and immediately due and payable, without any declaration or other determination by Lender and without notice of default, presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by Borrower.

#### ARTICLE 8. MISCELLANEOUS

SECTION 8.1. AMENDMENTS. No amendment, modification, termination, or waiver of any provision of any Loan Document to which Borrower is a party, nor consent to any departure by Borrower from any Loan Document to which it is a party,

-31-

shall in any event be effective unless the same shall be in writing and signed by Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 8.2. NOTICES. All notices and other communications provided for under this Agreement shall be in writing and shall be personally delivered or sent by first class United States mail, by nationally recognized overnight courier such as Federal Express or DHL, or by telecopy or by other means of telecommunication, to the following addresses:

to Borrower: Lam Research Co., Ltd.  
1-1-10 Oyama, 2F  
Sagamihara-shi, Kanagawa  
229 Japan  
Attention: Mr. Yasushi Matsunaga  
Telephone: 011-81-427-70-0320  
Facsimile: 011-81-427-70-0347

copy to: Lam Research Corporation  
47300 Bayside Parkway  
Fremont, California 94538-6516  
Attention: Brian Boldt  
Telephone: (510) 572-6910  
Facsimile: (510) 572-1586

to Lender: The Sakura Bank, Limited  
International Business Promotion Group  
Tokyo Main Office, Div 1  
1-2, Yurakucho, 1-chome  
Chiyoda-ku, Tokyo  
100 Japan  
Telephone: 011-81-33-595-3781  
Facsimile: 011-81-33-501-1219

or, as to each party, at such other address as shall be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. All such notices and communications shall be deemed received (i) if personally delivered, upon delivery; (ii) if sent by first class mail, following deposit in the mail with first class postage prepaid, upon receipt; (iii) if sent by courier service with next Business Day delivery charges prepaid, upon receipt; and (iv) if sent by telex, telecopy or similar form of telecommunications, upon receipt. Notwithstanding anything to the contrary contained herein, Lender shall endeavor to provide a copy of each notice sent hereunder to the entity requested above by Borrower; provided, however, except with respect to any notice provided by Lender under Section 7.2 hereof, any failure by Lender to provide a copy of any notice to such entity shall not affect the validity of any such notice given by Lender to Borrower as provided herein.

-32-

SECTION 8.3. NO WAIVER. No failure or delay on the part of Lender in exercising any right, power, or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right power, or remedy preclude any other or further exercise thereof or the exercise of any other right, power, or remedy hereunder. The rights and remedies provided herein are cumulative and are not exclusive of any other rights, powers, privileges, or remedies, now or hereafter existing, at law or in equity or otherwise.

SECTION 8.4. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns, except that Borrower may not assign or transfer any of its rights under any Loan Document without the prior written consent of Lender. Lender may (i) without the consent of Borrower, grant participations in this Agreement or in any of its rights under this Agreement; and (ii) with the consent of Borrower, which consent shall not be unreasonably withheld, negotiate, pledge or hypothecate this Agreement or in any of its rights under this Agreement. Borrower shall accord full recognition to any such assignment, and all rights and remedies of Lender in connection with the interest so assigned shall be as fully enforceable by such assignee or participant as they were by Lender before such assignment. In connection with any proposed assignment or participation, Lender may disclose to the proposed assignee or participant any information that Borrower is required to deliver to Lender pursuant to this Agreement provided such disclosure is made subject to the same

confidentiality restrictions, if any, applicable to Lender.

SECTION 8.5. COSTS AND EXPENSES. Borrower agrees to pay promptly upon demand therefore by Lender all costs and expenses (including, but not limited to, reasonable attorneys' fees and costs of settlement) incurred by Lender in enforcing any obligations of or in collecting any payments due from Borrower under any Loan Document or in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement in the nature of a "work-out" or of any insolvency or bankruptcy proceedings.

SECTION 8.6. INTEGRATION. This Agreement and the Loan Documents contain the entire agreement between the parties relating to the subject matter hereof and supersede all oral statements and prior writings with respect thereto.

SECTION 8.7. INDEMNIFICATION. Borrower shall indemnify, defend and hold harmless Lender and each of its shareholders, directors, officers, employees, successors and assigns (collectively, "Indemnitees") against any and all losses, liabilities, obligations, damages, claims, assessments, judgments, costs and expenses (collectively, "Losses") that may be imposed on, incurred by or asserted against any Indemnitee, including without limitation in each such case, any Interest Rate Funding Costs resulting from, arising out of or relating to:

(i) any default in payment or any prepayment of the principal amount of the Loan or any part thereof or interest accrued thereon, as

-33-

and when due and payable (at the due date thereof, by irrevocable notice of prepayment or otherwise); or

(ii) the occurrence of any Event of Default;

provided, however, that Borrower shall not indemnify, defend and hold harmless the Indemnitees for any Losses to the extent caused by the negligence or willful misconduct of any Indemnitee. Any Indemnitee seeking indemnification pursuant to this Section shall give notice to Borrower within a reasonable time of the assertion of any claim which could result in a Loss. Borrower, at its expense, shall have the right to assume the defense of such claim with counsel reasonably satisfactory to the Indemnitee, including without limitation the right to compromise or settle such claim so long as no liability is imposed on any Indemnitee as a result thereof. If Borrower, within a reasonable time after receipt of the notice of such claim, fails to defend the Indemnitee, then such Indemnitee shall have the right to undertake the defense, compromise, or settlement of such claim on its own behalf, and for the account and risk of Borrower. This indemnity shall survive termination of this Agreement.

SECTION 8.8. APPLICABLE LAW; JURISDICTION. This Agreement shall be governed by, and construed in accordance with the internal laws of the State of California. Borrower hereby irrevocably submits to the jurisdiction of any California state court located in Santa Clara County, or the Federal District Court of the Northern District of California in any action or proceeding arising out of or relating to this Agreement, and Borrower hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such California State or Federal court. Borrower hereby irrevocably appoints Richard H. Lovgren (the "Process Agent"), with an office on the date hereof c/o Lam Research Corporation, 47300 Bayside Parkway, Fremont, California 94538-6516, United States, as its agent to receive, on its behalf of it and its property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made by registered or certified mail, return receipt requested, or by delivering a copy of such process to Borrower in care of the Process Agent at the Process Agent's above address, and Borrower hereby irrevocably authorizes and directs the Process Agent to accept such service on his behalf. As an alternative method of service, Borrower also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Borrower at the address set forth in Section 8.2 above. Borrower agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in any other jurisdictions by suit on the judgment or in any other manner provided by law.

Nothing in this Section 8.8 shall affect the right of Lender to serve legal process in any other manner permitted by law or affect the right of Lender to

bring any action or proceeding against Borrower or his property in the courts of any other jurisdiction. To the extent that Borrower has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to

-34-

itself or its property, Borrower hereby irrevocably waives such immunity in respect of its obligations under this Agreement.

SECTION 8.9. SEVERABILITY OF PROVISIONS. Any provision of any Loan Document which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of such Loan Document or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 8.10. HEADINGS. Article and Section headings in the Loan Documents are included in such Loan Documents for the convenience of reference only and shall not constitute a part of the applicable Loan Documents for any other purpose.

SECTION 8.11. JURY TRIAL WAIVER. LENDER AND BORROWER HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM, OR COUNTERCLAIM, WHETHER IN CONTRACT OR TORT, AT LAW OR IN EQUITY, ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE LOAN DOCUMENTS. NO OFFICER OF Lender HAS AUTHORITY TO WAIVE, CONDITION, OR MODIFY THIS PROVISION.

SECTION 8.12. ASSISTANCE OF LENDER'S SAN FRANCISCO AGENCY; DELIVERY OF LOAN DOCUMENTS. Lender and Borrower acknowledge and agree that (i) Lender's San Francisco Agency was specifically responsible for the negotiation, documentation and underwriting of the Loan; (ii) the Loan Agreement was executed and delivered by Lender to Borrower in San Francisco, California; and (iii) the Loan Documents were delivered by Borrower to Lender in San Francisco, California.

SECTION 8.13. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to constitute one and the same document.

[SIGNATURES ARE ON FOLLOWING PAGE]

-35-

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

LENDER:

The Sakura Bank, Limited,  
a Japanese banking corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

BORROWER:

Lam Research Co., Ltd.

a Japanese corporation

By:

-----

Yo Miyazaki, President

-36-

SCHEDULE 6.1 TO TERM LOAN AGREEMENT  
(SECTION 6.1(ii) INDEBTEDNESS)

-37-

CONTINUING GUARANTY

THIS CONTINUING GUARANTY ("Guaranty") is made and entered into as of June 26, 1996 by LAM RESEARCH CORPORATION, a Delaware corporation ("Guarantor"), in favor of THE SAKURA BANK, LIMITED, a Japanese banking corporation ("Lender").

RECITALS:

A. Reference is made to that certain Term Loan Agreement of even date herewith ("Loan Agreement") between Lender and Lam Research Co., Ltd., a Japanese corporation ("Borrower"). Capitalized terms used herein and not otherwise defined have the meanings provided therefor in the Loan Agreement.

B. Borrower wishes to borrow up to Two Billion Three Hundred Million Yen (¥2,300,000,000) ("Loan") from Lender pursuant to the terms and conditions of the Loan Agreement.

C. The Loan Agreement requires as a condition precedent to the making of the Loan that Borrower obtain and deliver this Guaranty to Lender.

NOW, THEREFORE, Guarantor, intending to induce Lender to enter into the Loan Agreement and to make the Loan to Borrower, hereby represents, warrants and covenants as follows for the benefit of Lender and its successors and assigns.

ARTICLE 1.  
REPRESENTATIONS AND WARRANTIES

SECTION 1.1. FINANCIAL BENEFIT. Guarantor hereby acknowledges, warrants and represents to Lender as of the date hereof and as of the Closing Date that it has derived or expects to derive a financial advantage from the making of the Loan by Lender to Borrower and from each and every renewal, extension, release of collateral or other relinquishment of legal rights made or granted or to be made or granted by Lender to Borrower in connection with the Obligations (as hereinafter defined). In connection with the foregoing, Guarantor hereby warrants and represents to Lender as of the date hereof and as of the Closing Date that Guarantor currently directly owns and controls, free and clear of all Liens, all of the Equity Securities of Borrower.

SECTION 1.2. REVIEW OF DOCUMENTS. Guarantor hereby acknowledges and agrees that Guarantor has copies of and is fully familiar with the Loan Agreement, the Note and each of the other Loan Documents to be executed and delivered by Borrower to Lender on the date hereof or on or prior to the Closing Date in connection with the Loan.

SECTION 1.3. INCORPORATION, GOOD STANDING, AND DUE QUALIFICATION. Guarantor hereby warrants and represents to Lender as of the date hereof and as of the Closing Date that Guarantor is a corporation duly incorporated, validly existing, and in good standing under the laws of State of Delaware; has the corporate power and authority to own its assets and to transact the business in which it is now engaged or proposed to be engaged in; and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required, including, without limitation, the State of California.

SECTION 1.4. LOAN AGREEMENT REPRESENTATIONS. Guarantor hereby warrants and represents to Lender as of the date hereof and as of the Closing Date that Guarantor has reviewed each of the representations and warranties made by Borrower and contained in the Loan Agreement. Guarantor hereby warrants and represents to Lender as of the date hereof and as of the Closing Date that each such representation and warranty is true and correct.

ARTICLE 2.  
GUARANTY

SECTION 2.1. GUARANTY OF THE OBLIGATIONS. Guarantor unconditionally

guarantees and promises to pay to, or cause to be paid to, or to the order of, Lender, on demand, in lawful money of Japan, any and all of the Obligations of the Borrower to the Lender. "Obligations" mean any amount due and payable to Lender (including its successors and assigns) by Borrower (including its successors and assigns) pursuant to any of the Loan Documents, including, without limitation, principal and interest payable with respect to the Note, interest at the Default Rate on late payments, any prepayment charges or expenses, including Interest Rate Funding Costs and amounts which may become payable under Section 2.9 (Change in Law), Section 2.10 (Capital Adequacy), Section 8.5 (Costs and Expenses) and Section 8.7 (Indemnification) of the Loan Agreement. The unconditional obligations of Guarantor set forth herein constitute the full recourse obligations of Guarantor enforceable against it to the full extent of all its assets and properties.

SECTION 2.2. CONTINUING GUARANTY. This is a continuing guaranty of the Obligations and is a guaranty of payment and performance of the Obligations and not of collection only.

SECTION 2.3. NATURE OF GUARANTY. The liability of Guarantor hereunder is independent of the obligations of Borrower and a separate action or separate actions may be brought and prosecuted against Guarantor whether or not any action is brought or prosecuted against Borrower or any other person, including any other guarantor of the Obligations, or whether Borrower or any other person is joined in any such action or actions. The liability of Guarantor hereunder is independent of and not in consideration of or contingent upon the liability of any other person under this or any similar instrument and the release of, or cancellation by, any signer of this or a similar

instrument shall not act to release or otherwise affect the liability of Guarantor hereunder. Guarantor waives the benefit of any statute of limitations affecting its liability hereunder or the enforcement thereof to the fullest extent permitted by law.

SECTION 2.4. AUTHORIZATION. Guarantor hereby authorizes Lender, without notice or demand and without affecting its liability hereunder, from time to time to:

(a) renew, compromise, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of, the Obligations, or any part thereof, including increasing or decreasing the rate of interest thereon (but subject to the approval of Borrower to the extent required under the Loan Documents);

(b) amend with Borrower or waive any provision or provisions of the Loan Documents including the Note;

(c) take and hold security for the payment of the Obligations and exchange, enforce, waive or release any such security or any part thereof, and apply any such security and direct the order or manner of sale thereof as Lender, in its sole discretion, may determine; and

(d) release or substitute any one or more endorsers, guarantors and/or other obligors of this Guaranty and of the Obligations.

SECTION 2.5. WAIVERS.

(a) Guarantor waives the right to require Lender to proceed against or exhaust any security held from Borrower or any other person, or to pursue any other remedy in Lender's power whatsoever and Guarantor waives the right to have the property of Borrower first applied to the discharge of the Obligations. Lender may at its election exercise any right or remedy it may have against Borrower or any security now or hereafter held by Lender, including, without limitation, the right to foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the liability of Guarantor hereunder, except to the extent the Obligations have been paid. Guarantor understands that the exercise by Lender of certain rights and remedies contained in the Loan Documents (including without limitation, non-judicial foreclosure against any real property security for the Obligations) may affect or eliminate Guarantor's right of subrogation, contribution or indemnification against Borrower and that Guarantor may therefore succeed to a partially or totally nonreimbursable liability hereunder. Nevertheless, Guarantor hereby

authorizes and empowers Lender to exercise, in its sole discretion any rights and remedies or any combination of rights and remedies that may then be available, since it is the intent and purpose of Guarantor that the obligations hereunder shall be absolute, independent and unconditional under any and all circumstances. Guarantor waives (i) any defense arising by reason of any disability or other

defense of Borrower or by reason of the cessation from any cause whatsoever of the liability, either in whole or in part, of Borrower to Lender for the Obligations; (ii) any defense based on the discharge of Borrower by operation of law, notwithstanding any intervention or omission by Lender and notwithstanding the provisions of section 2825 of the California Civil Code; (iii) all rights and benefits under section 726 of the California Code of Civil Procedure; and (iv) any defense based on arising out of the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of Guarantor against Borrower or any such security, whether resulting from such election by Lender or otherwise.

(b) Guarantor waives all rights and benefits under (i) section 2822 of the California Civil Code purporting to reduce the obligation of a surety upon the acceptance by a creditor of anything in partial satisfaction of an obligation; (ii) section 2819 of the California Civil Code purporting to exonerate a surety if by any act of the creditor, without the consent of the surety, the original obligation of the principal is altered in any respect, or the remedies or rights of the creditor against the principal, in respect thereto, are in any way impaired or suspended (it being expressly understood and agreed that Lender may compromise, settle, alter, extend, waive, amend, suspend or surrender any Obligation or any right or remedy with respect thereto without notice to or consent by Guarantor and without affecting Guarantor's obligations hereunder); and (iii) section 2845 of the California Civil Code purporting to exonerate the surety to the extent that the creditor does not proceed against the principal, or pursue any other remedy in the creditor's power which the surety cannot pursue, and which would lighten the surety's burden. Guarantor hereby waives, to the fullest extent permitted by law (a) all rights and benefits under section 2809 of the California Civil Code purporting to reduce a guarantor's obligations in proportion to the principal obligation; (b) all rights and benefits under sections 2810, 2899 and 3433 of the California Civil Code; (c) all rights and benefits under section 580a of the California Code of Civil Procedure; (d) all rights and benefits under section 580b of the California Code of Civil Procedure stating that no deficiency may be recovered on a real property purchase money obligation; and (e) all rights and benefits under section 580d of the California Code of Civil Procedure stating that no deficiency may be recovered on a Note secured by a deed of trust on real property in case such real property is sold under the power of sale contained in such deed of trust. Guarantor fully understands that, without the waivers set forth in this Section 2.5, Guarantor would have a defense to a deficiency judgment under section 580d of the California Code of Civil Procedure should Lender elect to pursue nonjudicial foreclosure remedies, and nevertheless Guarantor expressly waives any and all benefits of any such defense to a deficiency judgment should Lender elect to exercise its nonjudicial foreclosure remedies (including waiver of Guarantor's defense under section 580d of the California Code of Civil Procedure).

(c) Without limiting the application of any of the other waivers contained herein, Guarantor hereby expressly waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for the guaranteed Obligations, has destroyed Guarantor's rights of subrogation and reimbursement against the principal (I.E., Borrower) by the operation of Section 580d of the California Code of Civil Procedure or otherwise.

(d) Guarantor understands and agrees that (i) by waiving the anti-deficiency protections and the subrogation rights and defenses referred to in this Section 2.5 and in Section 2.6 below, which protections, rights and defenses might otherwise afford Guarantor with protection from a deficiency judgment, Guarantor can be held liable for a deficiency judgment following a judicial or non-judicial foreclosure sale (including a judicial or non-judicial foreclosure sale of a purchase

money obligation) even if the price paid for the property at the non-judicial foreclosure sale is less than the fair value of the property; (ii) Guarantor is waiving its defense that the price paid for the property at a judicial or non-judicial foreclosure sale may not be equal to the fair value of the property; and (iii) by Guarantor waiving its right to a fair value hearing following the foreclosure sale that Lender can seek a deficiency against Guarantor up to the entire amount of the indebtedness secured by any real property collateral with interest and costs of sale less the amount paid for the property at the judicial or non-judicial foreclosure sale.

SECTION 2.6. ADDITIONAL WAIVERS; NO SUBROGATION. Until all the Obligations have been fully satisfied, Guarantor waives, to the fullest extent permitted by law (i) all rights of subrogation, contribution or indemnification against Borrower or any other right or remedy against Borrower arising from or relating to this Guaranty; (ii) all rights and benefits under section 2848 of the California Civil Code and any right to enforce any remedy which Lender now has or may hereafter have against Borrower in respect of the Obligations; (iii) any benefit of, and any right to participate in, any security, whether real or personal property, now or hereafter held by Lender for the Obligations; and (iv) all rights and benefits under sections 2849 and 2850 of the California Civil Code. Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor and notices of acceptance of this Guaranty and of the existence, creation or incurring of new or additional Obligations, whether existing, created or incurred under the Loan Agreement, any modification thereof or otherwise. Guarantor assumes the responsibility for being and keeping informed of the financial condition of Borrower and of all other circumstances bearing upon the risk of nonpayment of the Obligations which diligent inquiry would reveal, and agrees that Lender shall have no duty to advise Guarantor of information known to it regarding such condition or any such circumstances.

SECTION 2.7. BANKRUPTCY NO DISCHARGE; REPAYMENTS. So long as any of the Obligations remain unpaid and owing to Lender, Guarantor shall not, without the prior written consent of Lender, commence or join with any other party in commencing any

bankruptcy, reorganization or insolvency proceedings of or against Borrower. Guarantor understands and acknowledges that by virtue of this Guaranty, Guarantor has specifically assumed any and all risks of a bankruptcy or reorganization case or proceeding with respect to Borrower. As an example and not in any way of limitation, a subsequent modification of the Obligations in any reorganization case concerning Borrower shall not affect the obligation of Guarantor to pay and perform the Obligations in accordance with their respective original terms. If claim is ever made upon Lender for repayment of any amount or amounts received by Lender in payment of the obligations under the Loan Documents or hereunder (whether or not all or any part of such payment is invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by Lender) and Lender repays all or any part of said amount, then, notwithstanding any revocation or termination of this Guaranty or the cancellation of the Note or any other instrument evidencing the Loan, Guarantor shall be and remain liable to Lender for the amount so repaid to the same extent as if such amount had never originally been received by Lender.

SECTION 2.8. BORROWER. It is not and shall not be necessary for Lender to inquire into the powers of Borrower or any of their agents acting or purporting to act on behalf thereof, and any Obligations made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder. Guarantor agrees that Lender's books and records showing the account between Lender and Borrower shall be admissible in any proceeding or action.

### ARTICLE 3. COVENANTS

#### SECTION 3.1. CERTAIN FINANCIAL COVENANTS.

3.1.1 DEFINITIONS. For purposes of this Section 3.1, the following terms shall have the following meanings:

"AFFILIATE" means, with respect to any Person (i) each Person that, directly or indirectly, owns or controls, whether beneficially or as a trustee, guardian or other fiduciary, ten percent (10%) or

more of any class of Equity Securities of such Person; (ii) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such person; or (iii) each of such Person's officers, directors, joint venturers and partners; provided, however, that in no case shall Lender be deemed to be an Affiliate of Guarantor or any Subsidiary of Guarantor for purposes of this Guaranty. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"CAPITAL ASSET" means, with respect to any Person, any tangible fixed or capital asset owned or leased (in the case of a Capital Lease) by such Person, or any expense incurred by such Person that is required by GAAP to be reported as a non-current asset on such Person's balance sheet.

"CAPITAL EXPENDITURES" means, with respect to any Person and any period, all amounts expended and indebtedness incurred or assumed by such Person during such period for the acquisition of Capital Assets (including all amounts expended and indebtedness incurred or assumed in connection with Capital Leases).

"CAPITAL LEASES" means any and all lease obligations that, in accordance with GAAP, are required to be capitalized on the books of a lessee.

"CONTINGENT OBLIGATION" means, with respect to any Person, without duplication (i) any Guaranty Obligation of that Person; and (ii) any direct or indirect obligation or liability, contingent or otherwise, of that Person (a) in respect of any letters of credit, acceptances, bank guaranties, surety bonds or similar instrument issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings, (b) as a partner or joint venturer in any partnership or joint venture, or (c) incurred pursuant to any interest rate swap, currency swap, forward, cap, floor or other similar contract that is not entered into in connection with a bona fide hedging operation that provides offsetting benefits to such Person. The amount of any Contingent Obligation shall (subject, in the case of Guaranty Obligations, to the last sentence of the definition of "Guaranty Obligation") be deemed equal to the maximum reasonably anticipated liability in respect thereof.

"EBIT" means, with respect to any Person for any period, the sum of the following, determined on a consolidated basis in accordance with GAAP where applicable:

(i) the net income or net loss of such Person and its Subsidiaries for such period before provision for income taxes;

PLUS

(ii) All Interest Expense of such Person and its Subsidiaries accruing during such period (to the extent deducted in calculating net income or loss in clause (i) above).

"EQUITY SECURITIES" means (i) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting); and (ii) all warrants, options and other rights to acquire any of the foregoing.

"FUNDED DEBT" of any Person means, without duplication, all Indebtedness of such Person as described in clauses (i) -(iv) of the definition of Indebtedness.

"GAAP" means generally accepted accounting principles in the United States.

"GUARANTY OBLIGATION" means, with respect to any Person, any

direct or indirect liability of that Person with respect to any Indebtedness, lease, dividend, or other obligation (the "primary obligations") of another Person (the "primary obligor"), including any obligation of that Person, whether or not contingent (i) to purchase, repurchase or otherwise acquire such primary obligations or any property constituting direct or indirect security therefor; (ii) to advance or provide funds (a) for the payment or discharge of any such primary obligation, or (b) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor; or (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any primary obligation of the ability of the primary obligor to make payment of such primary obligation; or (iv) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof. The amount of any Guaranty Obligation shall be deemed equal to the stated or determinable amount of the primary obligation in respect of which such Guaranty Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof.

"INDEBTEDNESS" of any Person means, without duplication:

(i) All obligations of such Person evidenced by notes, bonds, debentures or other similar instruments and all other obligations of such Person for borrowed money;

(ii) All obligations of such Person for the deferred purchase price of property or services (including obligations under credit facilities which secure or finance such purchase price and obligations under synthetic leases), other than trade payables incurred by such Person in the ordinary course of its business on ordinary terms;

(iii) All obligations of such Person under conditional sale or other title retention agreements with respect to property acquired by such Person (to the extent of the value of such property if the rights and remedies of the seller or lender under such agreement in the event of default are limited solely to repossession or sale of such property);

(iv) All obligations of such Person as lessee under or with respect to Capital Leases;

(v) All obligations of such Person with respect to accounts receivable and related rights and property sold, assigned or transferred by such Person with recourse to such Person;

(vi) All Contingent Obligations of such Person; and

(vii) All Indebtedness of other Persons of the types described in clauses (i) - (vi) above to the extent secured by (or for which any holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien in any property (including accounts and contract rights) of such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"INTEREST COVERAGE RATIO" means, with respect to any Person for any period, the ratio, determined on a consolidated basis in accordance with GAAP where applicable, of:

(i) The remainder of (a) EBIT of such Person and its Subsidiaries for such period, MINUS (b) all Capital Expenditures of such Person and its Subsidiaries for such period;

TO

(ii) All Interest Expenses of such Person and its Subsidiaries for such period.

"INTEREST EXPENSES" means, with respect to any Person for any period, the sum, determined on a consolidated basis in accordance with

GAAP, of all interest accruing on the indebtedness of such Person during such period (including interest attributable to Capital Leases).

"LEVERAGE RATIO" means, with respect to any Person at any time, the ratio, determined on a consolidated basis in accordance with GAAP, of:

(i) The Total Liabilities of such Person and its Subsidiaries at such time;

TO

(ii) The Tangible Net Worth of such Person and its Subsidiaries at such time.

"NET PROCEEDS" means, with respect to any sale or issuance of any Equity Securities by any Person, the aggregate consideration received by such Person from such sale or issuance LESS the sum of the actual amount of the reasonable fees and commissions payable to Persons other than such Person or any Affiliate of such Person, the reasonable legal expenses and the other reasonable costs and expenses directly related to such sale or issuance that are to be paid by such Person.

"PERSON" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority, or other entity of whatever nature.

"QUICK RATIO" means, with respect to any Person at any time, the ratio, determined on a consolidated basis in accordance with GAAP, of:

(i) The remainder at such time of (a) the sum of all cash, cash equivalents (less than ninety (90) days in term), short-term marketable securities (less than one (1) year in term) and accounts receivable of such Person and its Subsidiaries (less all reserves therefor), MINUS (b) the sum of (1) the aggregate amount of such cash, cash equivalents, short-term marketable securities and accounts receivable which are subject to any Lien or are otherwise encumbered or restricted (to the extent such amounts do not secure a corresponding current liability amount included in the calculation of subpart (ii) below), and (2) with respect to any accounts receivable sold, assigned or transferred, to the extent included under subpart (i) (a) above, the aggregate amount of any accounts receivable representing the discounted portion of such accounts receivable so sold, assigned or transferred;

TO

(ii) The sum at such time of (a) the current liabilities of such Person and its Subsidiaries, (b) the aggregate principal amounts outstanding under any revolving credit facility (including, without limitation, in the case of Guarantor, the aggregate principal amount of all loans then outstanding under the 1995 Guarantor Credit Agreement), and (c) in the event such Person or any of its Subsidiaries exercises a purchase option under a synthetic lease or a purchase payment otherwise becomes due under a synthetic lease, the portion of any synthetic lease payment that would be

utilized to purchase the underlying property within one year of the date of such exercise or acceleration.

"SENIOR FUNDED DEBT" of any Person means any Funded Debt which is not Subordinated Debt.

"SENIOR INDEBTEDNESS" of any Person means, without duplication:

(i) all Senior Funded Debt of such Person;

(ii) all Contingent Obligations of such Person;

(iii) all obligations of such Person with respect to any synthetic leases; and

(iv) all obligations of such Person with respect to any sale, transfer or assignment of accounts receivable and related rights and property by such Person with recourse to such Person.

"SENIOR INDEBTEDNESS RATIO" means, with respect to any Person at any time, the ratio, determined on a consolidated basis in accordance with GAAP, of:

(i) The total Senior Indebtedness of such Person and its Subsidiaries at such time;

TO

(ii) The sum at such time of (a) the total Senior Indebtedness and Subordinated Debt of such Person and its Subsidiaries at such time PLUS (b) the total Tangible Net Worth of such Person and its Subsidiaries at such time.

"SUBORDINATED DEBT" means any subordinated debt permitted by Section 6.1(xi) of the Loan Agreement.

"SUBSIDIARY" of any Person means (i) any corporation of which more than 50% of the issued and outstanding Equity Securities having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries; (ii) any partnership, joint venture, or other association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time owned and controlled by such Person, by such Person and one or more of the other Subsidiaries or by one or more of such Person's other Subsidiaries; or (iii) any other Person included in the Financial Statements of such Person on a consolidated basis.

"TANGIBLE NET WORTH" means, with respect to any Person at any time, the remainder at such time, determined on a consolidated basis in accordance with GAAP, of (i) the total assets of such Person and its Subsidiaries MINUS (ii) the sum (without limitation and without duplication of deductions) of (a) the total liabilities of such Person and its Subsidiaries, (b) all reserves established by such Person and its Subsidiaries for anticipated losses and expenses (to the extent not deducted in calculating total assets in clause (i) above), and (c) all intangible assets of such Person and its Subsidiaries (to the extent included in calculating total assets in clause (i) above), including, without limitation, goodwill (including any amounts, however designated on the balance sheet, representing the cost of acquisition of businesses and investments in excess of underlying tangible assets), trademarks, trademark rights, trade name rights, copyrights, patents, patent rights, licenses, unamortized debt discount, marketing expenses, organizational expenses, non-compete agreements and deferred research and development.

"TOTAL LIABILITIES" of any Person means, without duplication:

(i) all liabilities of such Person, as determined in accordance with GAAP;

(ii) all Contingent Obligations of such Person;

(iii) all obligations of such Person with respect to any synthetic leases; and

(iv) all obligations of such Person with respect to any sale, assignment or transfer of accounts receivable and related

rights and property by such Person with recourse to such Person.

3.1.2 FINANCIAL COVENANTS. Guarantor covenants that until all Obligations have been fully and completely satisfied, Guarantor shall comply with, and cause compliance with, each of the following covenants:

(a) QUICK RATIO. Guarantor shall not permit its Quick Ratio during any period set forth below to be less than the ratio set forth opposite such period below:

June 28, 1996 through December 31, 1996 1.05;  
Thereafter 1.10.

(b) INTEREST COVERAGE RATIO. Guarantor shall not permit its Interest Coverage Ratio for each period set forth below to be less than the ratio set forth opposite such period below:

Each consecutive four quarter period ending June 30, 1996,  
September 30, 1996, and December 31, 1996 5.00;

Each consecutive four quarter period ending on the last day  
of each quarter thereafter 6.00.

(c) LEVERAGE RATIO. Guarantor shall not permit its Leverage Ratio during any period set forth below to be greater than the ratio set forth opposite such period below:

June 28, 1996 through December 31, 1996 1.20;  
January 1, 1997 through December 31, 1997 1.00;  
Thereafter 0.85.

(d) SENIOR INDEBTEDNESS RATIO. Guarantor shall not permit its Senior Indebtedness Ratio during any period set forth below to be greater than the ratio set forth opposite such period below:

June 28, 1996 through December 31, 1996 0.40;  
January 1, 1997 through December 31, 1997 0.37;  
Thereafter 0.34.

(e) TANGIBLE NET WORTH. Guarantor shall not permit its Tangible Net Worth on any date of determination (such date to be referred to herein as a "determination date") which occurs after June 30, 1995 (such date to be referred to herein as the "base date") to be less than the sum on such determination date of the following:

(i) \$375,000,000;

(ii) Seventy-five percent (75%) of the sum of Guarantor's consolidated quarterly net income (ignoring any quarterly losses) for each quarter ending after the base date through and including the quarter ending immediately prior to the determination date;

(iii) One hundred percent (100%) of the Net Proceeds of all Equity Securities issued by Guarantor and its Subsidiaries during the period commencing on the base date and ending on the determination date; and

(iv) One hundred percent (100%) of the aggregate decrease in the total liabilities of Guarantor and its Subsidiaries resulting from conversions of convertible Subordinated Indebtedness or other liabilities of Guarantor and its Subsidiaries into Equity Securities of Guarantor and its Subsidiaries during the period commencing on the base date and ending on the determination date.

(f) NET INCOME. Guarantor shall not permit (i) its net income for more than two quarters in any consecutive four-quarter period to be a loss; (ii) its net income for any one or two quarters in any consecutive four-quarter period to be a loss exceeding an aggregate amount of \$15,000,000 for any one or both such quarters together; or

(iii) its cumulative net income for any consecutive four-quarter period to be a loss.

SECTION 3.2. LOAN AGREEMENT COVENANTS. Guarantor shall comply with, and cause compliance with, each of the covenants set forth in Articles 5 and 6 of the Loan Agreement, including, without limitation, the covenants set forth in Sections 5.1, 5.4, 5.7, 6.1, 6.2, 6.3 and 6.4 of the Loan Agreement.

ARTICLE 4.  
MISCELLANEOUS

SECTION 4.1. CURRENCY. Guarantor shall make all payments due hereunder in Japanese Yen and this obligation shall not be discharged by any tender or judgment which is expressed in or converted into any currency other than Japanese Yen, except to the extent resulting in the actual receipt by Lender of the full amount of Japanese Yen payable hereunder. Such obligation to pay in Japanese Yen shall be enforceable as an additional cause of action to recover in Japanese Yen the amount, if any, by which such actual receipt shall fall short of the full amount of Japanese Yen payable hereunder. If after the occurrence of any Event of Default, any sum is due from Guarantor under this Guaranty or if any order or judgment given or made in relation hereto has to be converted from the currency ("first currency") in which the same is payable hereunder or under such order or judgment into another currency ("second currency") for the purpose of:

- (i) making or filing a claim or proof against the Guarantor;
- (ii) obtaining an order or judgment in any court or tribunal; or
- (iii) enforcing any order or judgment given or made in relation hereto,

Guarantor shall indemnify and hold harmless Lender from and against any damages or losses suffered as a result of any discrepancy between (a) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency, and (b) the rate or rates of exchange at which Lender may in the ordinary

course of business purchase the first currency with the second currency in the Japanese foreign exchange market upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

SECTION 4.2. PAYMENTS FREE AND CLEAR OF TAXES.

(a) Any and all payments by Guarantor hereunder shall be made free and clear of and without deduction for any and all taxes, charges or levies ("Taxes"). If Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 4.2) Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) Guarantor shall make such deductions and (iii) Guarantor shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. Notwithstanding anything to the contrary contained in this Section 4.2, Guarantor shall not be liable for the payment of any income, gross receipts or franchise taxes or other similar taxes with respect to any payment made by Guarantor pursuant to this Guaranty which is now or hereafter imposed on the overall net income of Lender.

(b) In addition, Guarantor agrees to pay any present or future stamp or documentary taxes, recording or filing fees or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution or delivery of or otherwise with respect to this Guaranty.

(c) Within ten (10) days after the date of any payment of Taxes by a Guarantor, Guarantor will furnish to Lender, at its principal office, the original or a certified copy of a receipt evidencing payment thereof.

SECTION 4.3. SURVIVAL OF WARRANTIES. All agreements, representations and warranties made herein shall survive the execution and delivery of this Guaranty.

SECTION 4.4. FAILURE OR INDULGENCE NOT WAIVER. No failure or delay on the part of Lender in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any power, right or privilege preclude any other exercise of such powers, rights or privileges. The powers, rights and privileges hereunder are cumulative to, and not exclusive of, any powers, rights or privileges otherwise available.

SECTION 4.5. RIGHTS TO SETOFF AND SUBROGATION. In addition to all liens upon, and rights to setoff against the moneys, securities or other property of Guarantor given to Lender by law, Lender shall have a lien upon and a right of setoff against all moneys, securities and other property of Guarantor now or hereafter in the possession of or on deposit with Lender, whether held in a general or special account or deposit, or for safekeeping or otherwise; and every such lien and right of setoff may be exercised

without demand upon or notice to Guarantor. No lien or right of setoff shall be deemed to have been waived by any act or conduct on the part of Lender, or by any neglect to exercise such right of setoff or to enforce such lien, or by any delay in so doing; and every right of setoff and lien shall continue in full force and effect until specifically waived or released by an instrument in writing executed by Lender.

SECTION 4.6. NOTICES. All notices and other communications provided for under this Guaranty shall be in writing and shall be personally delivered or sent by first class United States mail, by nationally recognized overnight courier such as Federal Express or DHL, or by telecopy or by other means of telecommunication, to the following addresses:

to Guarantor: Lam Research Corporation  
47300 Bayside Parkway  
Fremont, California 94538-6516  
Telephone: (510) 572-6910  
Facsimile: (510) 572-1586

to Lender: The Sakura Bank, Limited  
International Business Promotion Group  
Tokyo Main Office, Div 1  
1-2, Yurakucho, 1-chome  
Chiyoda-ku, Tokyo  
100 Japan  
Telephone: 011-81-33-595-3781  
Facsimile: 011-81-33-501-1219

or, as to each party, at such other address as shall be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. All such notices and communications shall be deemed received (i) if personally delivered, upon delivery; (ii) if sent by first class mail, following deposit in the mail with first class postage prepaid, upon receipt; (iii) if sent by courier service with next Business Day delivery charges prepaid, upon receipt; and (iv) if sent by telex, telecopy or similar form of telecommunications, upon receipt.

SECTION 4.7. SEVERABILITY. In case any provision of this Guaranty shall be invalid, illegal or unenforceable, such provisions shall be severable from the rest of this Guaranty and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 4.8. AMENDMENTS. This Guaranty may only be modified or amended by an instrument in writing duly executed and delivered by the parties or their duly authorized representatives.

SECTION 4.9. ENTIRE AGREEMENT. The terms and conditions set forth herein constitute the complete and exclusive statement of the agreement between Lender and

Guarantor relating to the subject matter of this Guaranty, superseding all previous negotiations and understandings, and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Guaranty constitutes the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial

proceeding, if any, involving this Guaranty.

SECTION 4.10. APPLICABLE LAW. This Guaranty shall be governed by, and construed in accordance with the internal laws of the State of California, without reference to principles of conflicts of law.

SECTION 4.11. JURISDICTION. Guarantor hereby irrevocably submits to the jurisdiction of any California state court located in Santa Clara County, or the Federal District Court of the Northern District of California in any action or proceeding arising out of or relating to this Guaranty, and Guarantor hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such California State or Federal court. Guarantor further consents to service of process upon it in such manner as shall be permitted by the laws of the State of California if litigation or other legal process is commenced in the courts of the State of California or by applicable federal law (including reference to state law) if litigation or legal process is commenced in the United States District Court. Guarantor also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Guarantor at the address set forth in Section 4.6 above. Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in any other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Section 4.11 shall affect the right of the Lender to serve legal process in any other manner permitted by law or affect the right of the Lender to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction. To the extent that Guarantor has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, Guarantor hereby irrevocably waives such immunity in respect of its obligations under this Guaranty.

SECTION 4.12. BINDING EFFECT; ASSIGNABILITY. This Guaranty shall be binding upon Guarantor and its successors, permitted assigns, heirs, executors, administrators, conservators, representatives, guardians and estates, and shall inure to the benefit of Lender and its successors, assigns, heirs, executors, administrators, conservators, representatives, guardians and estates. Lender may (i) without the consent of Borrower or Guarantor, grant participations in this Guaranty and the other Loan Documents or in any of its rights under this Guaranty and the other Loan Documents; and (ii) with the consent of Borrower (but no consent of Guarantor required), which consent shall not be unreasonably withheld by Borrower, negotiate, pledge or hypothecate this Guaranty and the other Loan Documents or in any of its rights under this Guaranty and the other Loan Documents. Guarantor shall accord full recognition to any such assignment, and all rights and remedies of Lender in connection with the

interest so assigned shall be as fully enforceable by such assignee or participant as they were by Lender before such assignment. In connection with any proposed assignment or participation, Lender may disclose to the proposed assignee or participant any information that Guarantor is required to deliver to Lender pursuant to this Guaranty or any of the other Loan Documents provided such disclosure is made subject to the same confidentiality restrictions, if any, applicable to Lender. Guarantor may not assign or otherwise transfer this Guaranty to any other person without the prior written consent of Lender, which consent may be withheld in Lender's sole and absolute discretion.

SECTION 4.13. HEADINGS. Headings of the Articles and Sections of this Guaranty are inserted for convenience only and shall not be deemed to constitute a part hereof.

SECTION 4.14. EXPENSES AND FEES. Guarantor hereby agrees to be responsible for and to pay all reasonable costs and expenses, including, without limitation, attorneys' fees and foreclosure fees, incurred by Lender in connection with the collection of all the Obligations guaranteed hereunder and the defense or enforcement of any of Lender's rights hereunder, whether or not suit is filed, and whether such collection be from Borrower or from Guarantor.

IN WITNESS WHEREOF, the due execution of this Guaranty as of the date first above written.

GUARANTOR:

LAM RESEARCH CORPORATION,  
a Delaware corporation

By: -----

Name: -----

Title: -----

LAM RESEARCH CORPORATION  
 STATEMENT OF COMPUTATION OF EARNINGS PER SHARE  
 FOR THE YEARS ENDED JUNE 30, 1996, 1995 AND 1994  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	PRIMARY -----	FULLY DILUTED -----
Year-ended June 30, 1996		
Net Income . . . . .	\$141,091	\$141,091
Add interest expense on convertible subordinated debentures, net of tax . . . . .	-	3,264
	----- \$141,091	----- \$144,355
	-----	-----
Average shares outstanding . . . . .	27,768	27,768
Net effect of dilutive stock options . . . . .	932	950
Assumed conversion of subordinated debentures . . . . .	-	2,222
	-----	-----
Common and common equivalent shares used in computing per share amounts . . . . .	28,700	30,940
	-----	-----
	-----	-----
Net income per share . . . . .	\$4.92	\$4.67
	-----	-----
	-----	-----
Year-ended June 30, 1995		
Net Income . . . . .	\$89,211	\$89,211
Add interest expense on convertible subordinated debentures, net of tax . . . . .	-	3,455
	----- \$89,211	----- \$92,666
	-----	-----
Average shares outstanding . . . . .	26,090	26,090
Net effect of dilutive stock options . . . . .	1,210	1,570
Assumed conversion of subordinated debentures . . . . .	-	2,640
	-----	-----
Common and common equivalent shares used in computing per share amounts . . . . .	27,300	30,300
	-----	-----
	-----	-----
Net income per share . . . . .	\$3.27	\$3.06
	-----	-----
	-----	-----
Year-ended June 30, 1994		
Net Income . . . . .	\$37,756	\$37,756
Add interest expense on convertible subordinated debentures, net of tax . . . . .	-	2,940
	----- \$37,756	----- \$40,696
	-----	-----
Average shares outstanding . . . . .	23,389	23,389
Net effect of dilutive stock options . . . . .	911	971
Assumed conversion of subordinated debentures . . . . .	-	2,640
	-----	-----
Common and common equivalent shares used in computing per share amounts . . . . .	24,300	27,000
	-----	-----
	-----	-----
Net income per share . . . . .	\$1.55	\$1.51

-----  
-----

SELECTED FINANCIAL DATA  
(in thousands, except per share data)

Year ended June 30,	1996	1995	1994	1993	1992
OPERATIONS:					
Total revenue	\$1,276,884	\$810,557	\$493,695	\$265,038	\$171,416
Gross profit	613,703	391,739	227,664	125,110	86,192
Operating income	212,935	118,392	60,206	28,153	15,267
Net income	141,091	89,211	37,756	18,907	9,947
Net income per share					
Primary	\$ 4.92	\$ 3.27	\$ 1.55	\$ 0.79	\$ 0.49
Fully diluted	\$ 4.67	\$ 3.06	\$ 1.51	\$ 0.79	\$ 0.49
BALANCE SHEET:					
Working capital	\$ 470,192	\$337,386	\$171,918	\$154,723	\$ 81,521
Total assets	969,365	682,649	381,497	268,839	156,600
Long-term obligations, less current portion	52,926	95,928	78,843	79,066	13,698

Quarterly 1996	1st	2nd	3rd	4th
Total revenue	\$263,244	\$290,517	\$346,639	\$376,484
Gross profit	128,537	142,010	167,970	175,186
Operating income	44,970	50,378	57,755	59,832
Net income	30,467	33,479	38,649	38,496
Net income per share				
Primary	\$ 1.07	\$ 1.18	\$ 1.37	\$ 1.29
Fully diluted	\$ 1.00	\$ 1.12	\$ 1.28	\$ 1.27
Price range per share	\$56.75-73.38	\$45.38-68.50	\$32.00-52.50	\$24.50-45.50

Quarterly 1995	1st	2nd	3rd	4th
Total revenue	\$161,513	\$172,739	\$219,014	\$257,291
Gross profit	76,823	83,888	106,965	124,063
Operating income	22,380	26,939	35,458	33,615
Net income	15,053	18,931	24,793	30,434
Net income per share				
Primary	\$ 0.61	\$ 0.68	\$ 0.89	\$ 1.07
Fully diluted	\$ 0.58	\$ 0.64	\$ 0.83	\$ 1.00
Price range per share	\$25.75-42.50	\$35.00-46.75	\$35.25-51.50	\$42.50-68.50

Fourth quarter fiscal 1995 net income includes the effect of a \$10.4 million gain on the sale of Brooks Automation Inc. securities.

Stock and Dividend Information: The Company's Common Stock is traded in the over-the-counter market under the NASDAQ National Market symbol LRCX. The price range per share is the highest and lowest bid prices as reported by the National Association of Security Dealers, Inc.

As of June 30, 1996, the Company had 1,192 stockholders of record.

No cash dividends have been declared or are anticipated to be paid by the Company as all available funds are intended to be employed in the development of the business, and the Company's bank agreements restrict the payment of dividends.

LAM RESEARCH CORP. / 14

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The information in this discussion contains forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the safe harbor provisions created by that

statute. Such statements are subject to certain risks and uncertainties, including those discussed below, that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Forward-looking statements are indicated by an asterisk (\*).

The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The following table sets forth, for the fiscal years indicated, certain income and expense items as a percentage of total revenue:

Year ended June 30,	1996	1995	1994
Net sales	98.2%	98.5%	98.2%
Royalty income	1.8	1.5	1.8
Total revenue	100.0	100.0	100.0
Cost of goods sold	51.9	51.7	53.8
Research and development	13.6	15.8	15.5
Selling, general and administrative	17.8	17.9	18.5
Operating income	16.7	14.6	12.2
Other income/(expense)	(0.3)	1.1	(0.6)
Income before income taxes	16.4	15.7	11.6
Income tax expense	5.3	4.7	3.9
Net income	11.1%	11.0%	7.7%

#### Fiscal 1996 vs. 1995

Lam's revenue for fiscal year 1996 increased to \$1,276.9 million, a 58% increase from the \$810.6 million of revenue in fiscal 1995. The Company's Transformer Coupled Plasma (TCP) products experienced increased sales in all regions and accounted for approximately one half of the overall increase in revenue. Also contributing to the overall increase in revenue for fiscal 1996 were sales of the Company's Rainbow and Alliance products, which when combined accounted for approximately one third of the increase in revenue. Alliance revenue was particularly strong in the latter half of fiscal 1996, as customers took delivery of the Alliance product in larger quantities. Most of the remainder of the increase in revenue resulted from increased spares and service revenue, which occurred as a result of the Company's increased installed machine base. Lam experienced increased revenue in all geographic regions, with foreign sales increasing to 64% of overall revenue from 54% in fiscal 1995. The Asia Pacific region, excluding Japan, accounted for slightly more than one half of the increase in revenue obtained from foreign sources. Also, the United States, Japan and European regions continued to show increases in revenue, accounting for, in approximately equal amounts, the remainder of the increase.

During fiscal 1996, Lam benefited from the expansion of the worldwide semiconductor market; however, this market is presently experiencing volatility in terms of product demand and pricing. This condition has caused some semiconductor manufacturers to exercise caution in making their capital equipment purchase decisions and has, in certain cases, led to rescheduled or canceled planned capital equipment purchases. As a result of the uncertainties of this current market environment, the company anticipates that its fiscal 1997 revenue could be less than the revenue achieved in fiscal 1996.\*

Royalty income was \$22.8 million in fiscal 1996, an 85% increase over fiscal 1995, due to the increased sales of systems incorporating Lam technology by Tokyo Electron Limited (TEL) and Sumitomo Metal Industries, Ltd. (Sumitomo). The current royalty agreement with TEL was due to expire in december 1996 but has been extended at a substantially lower royalty rate. As a result, the Company believes that sales of systems incorporating the Company's technologies to Japanese customers and royalty income derived therefrom will be substantially lower and continue to fluctuate on a quarterly and annual basis.\*

Gross margins were 48.1% for fiscal 1996 compared with 48.3% for fiscal 1995. The slight decrease in gross margins can be attributed to the product

mix as the Company sold a relatively higher percentage of the lower margin TCP and Alliance machines and a relatively lower percentage of the higher margin rainbow machines. The Company anticipates that gross margins may continue to decline as customers increasingly accept its newer technology and lower margin Alliance and TCP products. The Company is actively pursuing margin improvement programs for these products. Fiscal 1997 gross margins also may be negatively impacted due to overcapacity at the Company's manufacturing facilities and issues related to the slower industry conditions noted above.\*

LAM RESEARCH CORP. / 15

Research and development (R&D) dollar spending increased 35.3% in fiscal 1996 over fiscal 1995 and as a percentage of revenues decreased by 2.2% to 13.6% in fiscal 1996. R&D spending increased as the Company continued to invest in the development of advanced etch applications, chemical vapor deposition (CVD) technologies, including Deep SubMicron (DSM) 9800 (formerly Integrity-Registered Trademark-) and Deep SubMicron (DSM) 9900 (formerly Epic-TM-), continued enhancements to the TCP and Alliance products, and continued development of the Company's flat panel display technology. Although the R&D expenditures increased as the Company has added engineering and scientific headcount, R&D expenditures increased at a rate slightly slower than revenue increased. During the quarter ended June 30, 1996, the Company began occupancy of an additional engineering facility at the Company's Fremont campus, which the Company is utilizing under an operating lease. The Company operates in a constantly changing and highly competitive market, and therefore the Company believes it is critical to continue to make its investment in R&D programs in order to maintain its position as a technology leader.

Selling, general and administrative (S,G&A) expenses increased by 56.5% in fiscal 1996 over fiscal 1995 and decreased slightly as a percentage of sales. During fiscal 1996, the Company added employees in all customer support, sales and administration areas to accommodate the increased sales volume. During fiscal 1996, the Company significantly expanded its foreign facilities: the Company opened a manufacturing facility in Korea, expanded its facilities in Japan and relocated and began the expansion of its Taiwan facility, which will include a product demonstration laboratory and a training facility.

As a result of the recent market conditions noted above, the Company has implemented a number of expense and capital spending reduction programs to manage operating costs. Furthermore, in August 1996, the Company announced a restructuring of its operations which included an approximate 11% reduction of its workforce. For the first quarter of fiscal 1997, the Company will record a restructuring charge of \$11.0 to \$12.0 million for the costs resulting from severance compensation and consolidation of related facilities. The Company expects that as a result of these programs and the restructuring of operations, operating expenses on a dollar basis will be lower in fiscal 1997 than in 1996 but may increase as a percentage of the lower expected revenue for the year.\*

Interest expense for Lam increased by 17% over the prior fiscal year, due to additional yen bank borrowings by the Company's Japanese subsidiary, additional interest expense related to an interest-rate swap described in Note D to the consolidated financial statements, and the increased acquisition of equipment and leasehold capital leases. Other income decreased due to a \$10.4 million one time gain recorded in the fourth quarter of fiscal 1995 from the sale of all of the stock held by the Company in Brooks Automation Inc., a vendor to the Company.

The combined effective tax rate of 32.5% for fiscal 1996 increased over the prior year's 30%, due primarily to the expiration of federal research and development tax credits. The Company expects its effective tax rate to decrease in fiscal 1997 as a result of the recent reinstatement of the expired federal research and development tax credits. The Company believes its future income will be sufficient to realize its net deferred tax assets.\*

-----  
FISCAL 1995 VS. 1994  
-----

Lam's net sales for fiscal year 1995 increased to \$798.2 million, a 65% increase from the prior year, as the Company continued to participate in the worldwide expansion of the semiconductor chip market. Approximately two-thirds of the increase was due to increased unit shipments of the Company's Rainbow and TCP product lines, with shipments of the more advanced TCP products rising at a slightly higher rate when compared to the prior

year. Of the remaining increase, approximately one half was due to the first volume shipments of the Company's Alliance cluster tool, with most of that product's revenue growth occurring in the last two quarters of the fiscal year. Increased spares and service revenue, resulting from the Company's growing installed base, accounted for most of the remainder of the sales increase, with spares and service revenue representing 20% of the Company's total revenue. Geographically, for the first time in its history, more than one half of the Company's revenues came from foreign customers, with foreign sales representing 54.0% of total revenue, up from 48.4% in the prior year. During fiscal year 1995, the Company commenced direct sales of its TCP products to customers in Japan, which accounted for almost 41.5% of the TCP product lines' growth over the prior year. These sales are Japanese yen denominated (the only significant sales which are not U.S. dollar-denominated) and the Company's practice is to enter into yen forward exchange contracts at or near the date purchase orders for TCP systems are received from Japanese customers in order to minimize the subsequent foreign exchange fluctuations. Korea was the Company's largest single foreign market and accounted for 16.3% and 15.1% of net sales in fiscal 1995 and

LAM RESEARCH CORP. / 16

1994, respectively, and sales to European customers increased by over 47% from the prior year. Royalty income increased by 40.3% from fiscal 1994 due to increased sales of systems incorporating Lam technology by TEL and Sumitomo.

Gross margin for fiscal 1995 was 48.3% compared to 46.2% for the prior year. The improvement in gross margin was due in approximately equal measure to lower unit manufacturing costs and lower installation and warranty costs. Most of the decrease in unit manufacturing costs was due to reduced average material costs as a result of higher volume purchasing (material costs represent a relatively high percentage of total costs). Reductions in installation and warranty costs were achieved as a result of active cost reduction programs, increased training of field service and customer personnel, as well as ongoing system design improvements.

R&D spending dollars increased by 67% in fiscal 1995 over fiscal 1994, and as a percentage of total revenues, increased slightly to 15.8%, up from 15.5% for the prior fiscal year. During fiscal year 1995, the Company opened a major new R&D dedicated facility at its Fremont, California campus and continued to add scientific and engineering personnel to staff its ongoing development projects, which included improvements to its existing etch products, continued development of CVD products, and new product development, including the new release of the Alliance cluster tool (introduced during fiscal year 1995) and flat panel display.

S,G&A expenses increased by 60% in fiscal 1995 over fiscal 1994, but continued to decrease as a percentage of total revenue to 17.9% from 18.5% for the prior fiscal year. The Company added significant facilities and information technology infrastructure in fiscal 1995 to accommodate the rapidly expanding growth in its sales, field service, customer support, and administration areas as a result of the increased sales volume. S,G&A headcount increased by 57% in fiscal 1995 over fiscal 1994.

Interest expense increased by 30.6% over the prior fiscal year, due to additional yen bank borrowings by its Japanese subsidiary, additional interest expense related to an interest rate swap described in Note D to the consolidated financial statements, and the increased acquisition of equipment and leasehold capital leases. Interest income increased due to the investment of the proceeds of a public offering of the Company's common stock completed in the first quarter of fiscal 1995. Other income included a \$10.4 million gain recorded in the fourth quarter of fiscal 1995 from the sale of stock held in Brooks Automation, a vendor to the Company. The combined effective tax rate for fiscal 1995 of 30% decreased over the prior year's 34% due to an increase in benefits resulting from federal and state research and other tax credits.

- - - - -  
LIQUIDITY AND CAPITAL RESOURCES  
- - - - -

Operating activities provided approximately \$26.6 million in cash flows for fiscal 1996. Approximately \$174.8 million of net cash was generated from net income plus non-cash depreciation and amortization, which was offset by increases in accounts receivable and inventories less increases in trade accounts payable and accrued expenses, all such increases being due to the Company's increased sales volume for the fiscal year. During the third quarter of fiscal 1996, the Company renegotiated a lease agreement related to

one of its R&D buildings and an engineering building and as a result, \$25.0 million of previously restricted investments (restricted cash) became unrestricted and as a result, has been included in short-term investments at June 30, 1996. During fiscal 1996, the Company entered into an agreement with a bank which allows the Company to sell up to 6 billion yen of yen-denominated accounts receivable to the bank. At June 30, 1996, the equivalent of \$82.1 million of receivables had been sold to the bank, with \$49.5 million still uncollected by the bank and subject to recourse provisions.

Net cash used in investing activities for fiscal 1996 was \$47.7 million. Capital expenditures included acquisition of equipment used in manufacturing and research and development and construction of demonstration labs and leasehold improvements for the Company's expansion at the Fremont campus, Japan facility, Taiwan facility and the new manufacturing facility in Korea and accounted for \$66.6 million of cash use. Offsetting the use of cash for capital expenditures were proceeds from the sales of short-term investments totaling \$14.8 million (net of purchases). Cash receipts from investing activities of \$12.0 million were provided from the sale of Brooks Automation, Inc. securities.

Net cash provided by financing activities for fiscal 1996 was \$40.3 million. During the fourth quarter of fiscal 1996, the Company primarily incurred yen-denominated borrowings of \$21.9 million.

As of June 30, 1996, the Company had \$130.5 million in cash, cash equivalents and short-term investments compared with \$101.0 million at June 30, 1995. The Company has a total of \$210.0 million available under a syndicated bank line of credit, which expires in December 1998 compared to \$50 million in various bank borrowing lines at June 30, 1995. At June 30, 1996,

LAM RESEARCH CORP. / 17

the Company had borrowed \$25.0 million against the line of credit. Borrowings under the line of credit are unsecured.

The Company's commitments consist primarily of debt obligations and operating and capital lease commitments for its facilities and equipment. Based upon current forecasts, the Company's cash, cash equivalents, short-term investments and available lines of credit at June 30, 1996 should be sufficient to support anticipated levels of operations and capital expenditures through at least June 30, 1997.\*

- - - - -  
RISK FACTORS  
- - - - -

- - - - -  
CURRENT SLOWDOWN AND VOLATILITY IN THE SEMICONDUCTOR  
INDUSTRY  
- - - - -

The Company's business depends upon the capital equipment expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits and products utilizing integrated circuits. The semiconductor industry has been cyclical in nature and historically experienced periodic downturns. The semiconductor industry is presently experiencing a slowdown in terms of product demand and volatility in terms of product pricing. This slowdown and volatility has caused the semiconductor industry to reduce its demand for semiconductor processing equipment. No assurance can be given that the Company's revenue and operating results will not be adversely affected during this and possible future downturns in the semiconductor industry. In addition, the need for continued investments in research and development, substantial capital equipment requirements and extensive ongoing worldwide customer service and support capability will limit the Company's ability to reduce expenses. Accordingly, there is no assurance that the Company will be able to remain profitable in the future.

- - - - -  
HIGHLY COMPETITIVE INDUSTRY  
- - - - -

The semiconductor processing equipment industry is highly competitive. The Company faces substantial competition throughout the world. The Company believes that to remain competitive, it will require significant financial resources in order 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. In addition, the Company intends to continue to invest substantial resources to increase sales of its systems to Japanese semiconductor manufacturers, who represent a substantial portion of the worldwide semiconductor market and whose market is difficult for non-Japanese equipment companies to penetrate. The Company believes that the semiconductor equipment industry is becoming increasingly dominated by large manufacturers who have the resources to support customers on a worldwide basis, and certain of the Company's competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer service and support capabilities than the Company. In addition, there are smaller emerging semiconductor equipment companies which provide innovative technology. The Company expects its competitors to continue to improve the design and performance of their current products and processes and to introduce new products and processes with improved price and performance characteristics. If the Company's competitors enter into strategic relationships with leading semiconductor manufacturers covering etch or deposition products similar to those sold by the Company, its ability to sell its products to those manufacturers could be adversely affected. No assurance can be given that the Company will continue to compete successfully in the United States or worldwide.

-----  
DEPENDENCE ON NEW PRODUCTS AND PROCESSES; RAPID  
TECHNOLOGICAL CHANGE  
-----

Semiconductor manufacturing equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part upon its ability to continue to enhance its existing products and their process capabilities and to develop and manufacture new products with improved process capabilities. As a result, the Company expects to continue to make significant investments in research and development.\* The Company also must manage product transitions successfully, as introductions of new products could adversely affect sales of existing products. There can be no assurance that future technologies, processes or product developments will not render the Company's current product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products and processes in a timely manner which satisfy customer needs or achieve market acceptance. The failure to do so could adversely affect the Company's business. Furthermore, if the Company is not successful in the development of advanced processes or equipment for manufacturers with whom it has formed strategic alliances, its ability to sell its products to those manufacturers would be adversely

affected. In addition, in connection with the development of the Company's new products, the Company invests in high levels of preproduction inventory, and the failure to complete development and commercialization of these new products in a timely manner could result in inventory obsolescence, which could have an adverse effect on the Company's financial results.

-----  
FLUCTUATIONS IN QUARTERLY OPERATING RESULTS  
-----

The Company's revenue and operating results may fluctuate from quarter to quarter. The Company derives its revenue primarily from the sale of a relatively small number of high-priced systems which can range in price from \$300,000 to over \$3 million. Some of these systems are ordered and shipped during the same quarter. The Company's results of operations for a particular quarter could be adversely affected if anticipated orders for even a small number of systems were not received in time to enable shipment during the quarter, if anticipated shipments were delayed or cancelled by one or more customers or if shipments were delayed due to manufacturing difficulties. In particular, the Company has experienced certain cases of rescheduling or cancellation of orders. The Company's revenue and operating results may also fluctuate due to the mix of products sold, the geographic region of distribution or the level of royalty income from the Company's Japanese licenses. The Company generally realizes a higher margin on sales of its mature etch products and on revenue from service and spare parts than on sales of new TCP and Alliance products. Newer products usually have lower margins in the initial phase of production. Increases or decreases in royalty

income will also have a disproportionate impact on operating income and will continue to fluctuate on a quarterly basis. The impact of these and other factors on the Company's revenues and operating results in any future periods is difficult for the Company to forecast.

-----  
DEPENDENCE ON KEY SUPPLIERS  
-----

Certain of the components and subassemblies included in the Company's products are obtained from a single supplier or a limited group of suppliers. The Company believes that alternative sources could be obtained and qualified to supply these products. Nevertheless, a prolonged inability to obtain certain components could have an adverse effect on the Company's operating results and could result in damage to customer relationships.

-----  
ENVIRONMENTAL REGULATIONS  
-----

The Company is subject to a variety of governmental regulations related to the discharge or disposal of toxic, volatile, or otherwise hazardous chemicals used in the manufacturing process. The Company believes that it is in compliance with these regulations and that it has obtained all necessary environmental permits to conduct its business, which 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 the Company, suspension of production or cessation of operations. Such regulations could require the Company to acquire significant equipment or to incur substantial other expenses to comply with environmental regulations. Any failure by the Company to control the use of, or adequately restrict the discharge or disposal of hazardous substances could subject the Company to future liabilities.

-----  
INTERNATIONAL SALES  
-----

The Company anticipates that export sales will continue to account for a significant portion of its net sales.\* Additionally, the Company continues to expand its international operations, including expansion of its facilities in Asia. As a result, a significant portion of the Company's sales and operations will be subject to certain risks, including tariffs and other barriers, difficulties in staffing and managing foreign subsidiary and branch operations, difficulties in managing distributors, potentially adverse tax consequences and the possibility of difficulty in accounts receivable collection. There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial condition and results of operations.

-----  
INTELLECTUAL PROPERTY MATTERS  
-----

From time to time, the Company is notified that it may be in violation of certain patents. In such cases, the Company's policy is to defend against the claims or negotiate licenses where considered appropriate. However, no assurance can be given that it will be able to obtain necessary licenses on commercially reasonable terms or at all. Any failure to obtain such licenses on commercially reasonable terms, or at all, or any litigation resulting from such claims could have a material adverse effect on the Company's business and financial condition.

LAM RESEARCH CORP. / 19

CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share data)

June 30,	1996	1995
ASSETS		
Cash and cash equivalents	\$ 62,879	\$ 43,675
Short-term investments	67,605	57,334
Accounts receivable less allowance for doubtful accounts of \$1,663 in 1996 and \$1,189 in 1995	256,767	195,682

Inventories	322,366	171,401
Prepaid expenses and other assets	17,193	25,263
Deferred income taxes	50,035	32,778
-----		
Total current assets	776,845	526,133
Equipment and leasehold improvements, net	170,839	117,571
Restricted investments	--	25,024
Other assets	21,681	13,921
-----		
	\$969,365	\$682,649
-----		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$112,883	\$ 82,542
Accrued expenses and other liabilities	155,874	98,633
Line of credit borrowings	25,000	--
Current portion of long-term debt and capital lease obligations	12,896	7,572
-----		
Total current liabilities	306,653	188,747
Long-term debt and capital lease obligations, less current portion	52,926	95,928
Deferred income taxes	--	2,712
Commitments and contingencies		
Preferred Stock; 5,000 shares authorized, none outstanding	--	--
Common stock at par value of \$.001 per share Authorized--90,000 shares; issued and outstanding--30,266 shares at June 30, 1996 and 27,275 shares at June 30, 1995	30	27
Additional paid-in capital	298,160	224,730
Retained earnings	311,596	170,505
-----		
Total stockholders' equity	609,786	395,262
-----		
	\$969,365	\$682,649
-----		

See notes to consolidated financial statements.

LAM RESEARCH CORP. / 20

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

Year ended June 30,	1996	1995	1994
-----			
Net sales	\$ 1,254,070	\$798,209	\$484,892
Royalty income	22,814	12,348	8,803
-----			
Total revenue	1,276,884	810,557	493,695
-----			
Costs and expenses:			
Cost of goods sold	663,181	418,818	266,031
Research and development	173,013	127,840	76,328
Selling, general and administrative	227,755	145,507	91,130
-----			
	1,063,949	692,165	433,489
-----			
Operating income	212,935	118,392	60,206
-----			
Other income (expense):			
Interest income	5,442	5,138	1,743
Interest expense	(7,887)	(6,732)	(5,155)
Other, net	(1,453)	10,646	363

	(3,898)	9,052	(3,049)
Income before income taxes	209,037	127,444	57,157
Income tax expense	67,946	38,233	19,401
Net income	\$ 141,091	\$ 89,211	\$ 37,756
Net income per share			
Primary	\$ 4.92	\$ 3.27	\$ 1.55
Fully diluted	\$ 4.67	\$ 3.06	\$ 1.51
Number of shares used in per share calculations			
Primary	28,700	27,300	24,300
Fully diluted	30,940	30,300	27,000

See notes to consolidated financial statements.

LAM RESEARCH CORP. / 21

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

Year Ended June 30,	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$141,091	\$ 89,211	\$37,756
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	33,756	23,532	18,438
Deferred income taxes	(21,519)	(12,529)	(13,310)
Changes in certain working capital accounts:			
Accounts receivable	(61,085)	(75,356)	(50,382)
Inventories	(150,965)	(55,832)	(51,280)
Prepaid expenses and other assets	(3,968)	(19,240)	(2,635)
Trade accounts payable	30,341	16,415	35,289
Accrued expenses and other liabilities	58,960	52,895	32,378
Total adjustments	(114,480)	(70,115)	(31,502)
Net cash provided by operating activities	26,611	19,096	6,254
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(66,588)	(63,405)	(18,975)
Purchase of available-for-sale securities	(405,819)	(348,204)	(14,194)
Sale of available-for-sale securities	420,572	289,968	--
Purchase of restricted investments	--	--	(9,928)
Proceeds from the sale of securities	12,038	--	--
Acquisition of Drytek, Inc. net of cash acquired	--	--	( 5,785)
Other	(7,947)	(3,026)	(2,102)
Net cash used in investing activities	(47,744)	(124,667)	(50,984)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings under line of credit	40,000	--	--
Repayment of borrowings under line of credit	(15,000)	--	--
Proceeds from issuance of long-term debt	21,873	9,468	5,724
Principal payments on long-term debt and capital lease obligations	(13,987)	(6,406)	(6,843)
Proceeds from issuance of common stock	7,451	122,092	2,688
Net cash provided by financing activities	40,337	125,154	1,569
Net increase (decrease) in cash and cash equivalents	19,204	19,583	(43,161)
Cash and cash equivalents at beginning of year	43,675	24,092	67,253
Cash and cash equivalents at end of year	\$ 62,879	\$ 43,675	\$24,092
Cash payments for interest	\$ 8,574	\$ 6,614	\$ 4,575
Cash payments for income taxes	\$ 74,666	\$ 31,319	\$20,289

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total
Balance at June 30, 1993	23,142	\$23	\$ 86,709	\$ 43,538	\$130,270
Sale of Common Stock, net of repurchases	350	1	2,687	--	2,688
Income tax benefit from stock option transactions	--	--	4,939	--	4,939
Common Stock issued to acquire Monkowski-Rhine, Inc.	36	--	1,178	--	1,178
Net income	--	--	--	37,756	37,756
Balance at June 30, 1994	23,528	24	95,513	81,294	176,831
Sale of Common Stock, net of repurchases	3,747	3	122,089	--	122,092
Income tax benefit from stock option transactions	--	--	7,128	--	7,128
Net income	--	--	--	89,211	89,211
Balance at June 30, 1995	27,275	27	224,730	170,505	395,262
Sale of Common Stock, net of repurchases	351	--	7,451	--	7,451
Income tax benefit from stock option transactions	--	--	1,719	--	1,719
Conversion of subordinated debentures	2,640	3	64,260	--	64,263
Net income	--	--	--	141,091	141,091
Balance at June 30, 1996	30,266	\$30	\$298,160	\$311,596	\$609,786

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 1996

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

CASH EQUIVALENTS

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market. The Company adjusts the carrying value of excess or obsolete inventory as appropriate.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements are stated at cost. Equipment is depreciated by the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized by the straight-line method over the shorter of the life of the related asset or the term of the lease. Amortization of equipment under capital leases is included with depreciation. In 1995, the Financial Accounting Standards Board released Statement of Financial Accounting

Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (FAS 121). FAS 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. FAS 121 is effective for fiscal years beginning after December 15, 1995. Adoption of FAS 121 is not expected to have a material impact on the Company's financial position or results of operation.

- - -----  
REVENUE RECOGNITION  
- - -----

Sales of the Company's products are generally recorded upon shipment. Estimated costs to be incurred by the Company related to product installation and warranty fulfillment are accrued at the date of shipment.

- - -----  
FOREIGN CURRENCY  
- - -----

The Company has foreign sales, service and manufacturing operations. With respect to all foreign subsidiaries excluding Japan, the functional currency is the U.S. dollar and transaction and translation gains and losses are included in net income and have not been material in any year presented. The functional currency of the Company's Japanese subsidiary is the Japanese yen. Translation gains and losses related to the Japan subsidiary are included as component of stockholders' equity, but have not been material through June 30, 1996.

- - -----  
INCOME PER SHARE  
- - -----

Income per share computations are based upon the weighted average number of shares of Common Stock and common stock equivalents outstanding during the year. The common stock equivalents include shares issuable upon the assumed exercise of stock options using the treasury stock method. The convertible subordinated debentures are not deemed to be common stock equivalents and, accordingly, are excluded from the calculation of primary income per share. Fully diluted income per share includes the effect of the convertible subordinated debentures, and net income is adjusted to reflect the exclusion of net interest expense and net amortization expense of debt issuance costs related to the debentures, assuming their conversion at the beginning of the period. Primary income per share, for fiscal 1996, calculated to reflect the conversion of the convertible subordinated debentures as if they were converted on July 1, 1995 is \$4.67.

- - -----  
EMPLOYEE STOCK PLANS  
- - -----

The Company accounts for its stock option plans and its employee stock purchase plan in accordance with the provisions of the Accounting Principles Board's Opinion No. 25 "Accounting For Stock Issued to Employees" (APB 25). In October 1995, the Financial Accounting Standards Board released Statement of Financial Accounting Standard No. 123, "Accounting For Stock-Based Compensation" (FAS 123). FAS 123 provides an alternative to APB 25 and is effective for fiscal years beginning after December 15, 1995. The Company expects to continue to account for its employee stock plans in accordance with the provisions of APB 25. Accord

LAM RESEARCH CORP. / 24

ingly, FAS 123 is not expected to have a material impact on the Company's Financial position or results of operation. Effective with the issuance of the Company's fiscal year 1997 financial statements, the Company will disclose proforma net income and net income per share amounts as if FAS 123 were applied.

- - -----  
USE OF ESTIMATES  
- - -----

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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. Actual results could differ from those estimates.

-----  
 B COMPANY AND INDUSTRY INFORMATION  
 -----

Lam Research Corporation is a leading supplier of technically complex thin film processing equipment used in the primary stages of semiconductor manufacturing. The Company's product offerings include single wafer plasma etch systems with a wide range of applications and chemical vapor deposition (CVD) systems. The Company sells its products primarily to large companies involved in the production of semiconductors in the United States, Europe, Japan and Asia Pacific. Credit evaluations are performed on all customers, and the Company usually does not require collateral on sales.

The semiconductor industry has historically been cyclical and has experienced periodic downturns, which have had a material adverse effect on the semiconductor industry's demand for semiconductor processing equipment, including equipment manufactured and marketed by the Company. Certain of the components and subassemblies included in the Company's products are obtained from a single supplier or a limited group of suppliers. The Company believes that alternative sources could be obtained and qualified to supply these products. Nevertheless, a prolonged inability to obtain certain components could have a severe near term effect on the Company's operating results and could result in damage to customer relationships.

The Company entered into agreements totaling approximately 6 billion yen and 5 billion yen in fiscal 1996 and 1995, respectively, to sell specific Japanese yen-denominated receivables subject to recourse. At June 30, 1996 and 1995, \$82,104,000 and \$37,612,000, of these receivables respectively, had been sold to the bank, of which \$49,467,000, at June 30, 1996, remained uncollected by the bank and subject to recourse provisions.

During fiscal 1996, no individual customer accounted for greater than 10% of sales. One customer accounted for 11% and 14% of sales for fiscal 1995 and 1994, respectively. Another customer accounted for 10% of sales for fiscal 1994.

The Company operates in four geographic regions, the United States, Europe, Japan and Asia Pacific. The following is a summary of local operations by geographic region at June 30:

(in thousands)	1996	1995	1994
-----			
Revenue:			
United States	\$1,295,003	\$820,418	\$491,909
Europe	65,266	38,604	23,776
Japan	150,707	52,923	5,705
Asia Pacific	65,331	38,162	13,522
Elimination	(299,423)	(139,550)	(41,217)
-----			
Total	\$1,276,884	\$810,557	\$493,695
-----			
Operating income/(loss):			
United States	\$ 171,632	\$111,284	\$ 57,694
Europe	23,717	9,874	7,902
Japan	4,127	520	793
Asia Pacific	16,700	13,199	2,885
Elimination	(3,241)	(16,485)	(9,068)
-----			
Total	\$ 212,935	\$118,392	\$ 60,206
-----			
Identifiable assets:			
United States	\$1,097,246	\$772,696	\$411,838
Europe	48,458	28,936	26,067
Japan	99,592	64,135	10,993
Asia Pacific	90,561	32,832	15,346
Elimination	(366,492)	(215,950)	(82,747)
-----			
Total	\$ 969,365	\$682,649	\$381,497
-----			

Sales between geographic areas are accounted for at prices that provide a profit and are in accordance with the rules and regulations of the respective governing authorities. Total export revenue consisting of sales from the Company's U.S. operating subsidiary to non-affiliated customers by geographic region for the years ended June 30 are as follows:

(in thousands)	1996	1995	1994
Asia Pacific	\$334,149	\$173,549	\$102,763
Europe	172,586	105,349	73,563
Japan	22,936	29,477	19,612
	\$529,671	\$308,375	\$195,938

#### C FINANCIAL INSTRUMENTS

In November 1995, the Financial Accounting Standards Board staff issued a Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities". In accordance with provisions in that Special Report, the Company elected, in December 1995, to reclassify all of its held-to-maturity securities to available-for-sale. At the time of transfer, the amortized cost of those securities was \$24,099,000 million, which approximated their fair value.

Investments at June 30, 1996 are comprised of the following:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Institutional Money Market Funds	\$ 5,546	\$--	\$--	\$ 5,546
Amounts included in cash and cash equivalents	5,546	--	--	5,546
Floating Rate Municipal Bonds	44,600	--	--	44,600
U.S. Treasury Notes	23,005	--	--	23,005
Amounts included in short-term investments	67,605	--	--	67,605
Total Available-for-sale	\$73,151	\$--	\$--	\$73,151

Investments at June 30, 1995 are comprised of the following:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Commercial Paper	\$12,983	\$--	\$ --	\$12,983
Institutional Money Market Funds	15,050	--	--	15,050
U.S. Treasury Notes	1,973	--	--	1,973
Amounts included in cash and cash equivalents	30,006	--	--	30,006
Floating Rate Municipal Bonds	50,334	--	--	50,334
Money Market Preferred Stock	7,000	--	--	7,000

Amounts included in short-term investments	57,334	--	--	57,334
Total Available-for-sale	\$87,340	\$--	\$ --	\$87,340
Held-to-maturity:				
U.S. Treasury Notes	\$25,024	\$--	\$(509)	\$24,515
Amounts included in restricted cash	\$25,024	\$--	\$(509)	\$24,515

The amortized cost and estimated fair value of investments in debt securities at June 30 by contractual maturities are as follows:

(in thousands)	1996		1995	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Due in less than one year	\$50,146	\$50,146	\$ 87,340	\$ 87,340
Due after one year through five years	23,005	23,005	25,024	24,515
Total investments in debt securities	\$73,151	\$73,151	\$112,364	\$111,855

During fiscal 1996, the Company terminated a lease agreement related to one of its R&D buildings and an engineering building and, as a result, all previously restricted cash, \$25,024,000, at June 30, 1995 became unrestricted.

LAM RESEARCH CORP. / 26

The carrying and fair values of the Company's other financial instruments at June 30, are as follows:

(in thousands)	1996		1995	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash & cash equivalents	\$62,879	\$62,879	\$43,675	\$ 43,675
Convertible subordinated debentures	\$ --	\$ --	\$66,000	\$169,868
Other long-term debt	\$65,822	\$65,591	\$37,500	\$ 37,200

The fair values of the Company's short-term investments, restricted investments, and convertible subordinated debentures are based on quoted market prices at June 30, 1996 and 1995. The fair value of the Company's other long-term debt is estimated based on the current rates offered to the Company for similar debt instruments of the same remaining maturities.

During the fourth quarter of fiscal 1995, the Company sold all of its shareholdings of Brooks Automation, Inc., (Brooks) for a net gain of \$10,399,000, which was included as other income. At June 30, 1995, the receivable related to the sale of these securities was recorded in other current assets. The shares the Company sold were included as part of the Brooks public offering of common stock on June 27, 1995. At that time, Roger

Emerick, the Company's Chief Executive Officer, served on the board of directors of Brooks.

-----  
D DERIVATIVE FINANCIAL INSTRUMENTS  
-----

The Company enters into foreign-currency forward contracts to minimize the impact of exchange rate fluctuations on the value of yen-denominated assets and liabilities. A substantial portion of the forward contracts entered into have a maturity of 90 days or less. The realized and unrealized gains and losses on these contracts are deferred and offset against realized and unrealized gains and losses from the settlement of the related yen receivables. The realized losses on yen-forward contracts during fiscal 1996 were offset by the gains on underlying receivables.

At June 30, 1996, the Company had forward contracts to sell yen worth \$43,632,000. Of the total outstanding contracts, \$38,794,000 was hedging yen receivables and \$4,838,000 was hedging firm commitments from customers in Japan. The unrealized gain on these contracts at June 30, 1996 was \$948,000. At June 30, 1995, the Company had forward contracts to sell \$30,701,000 Japanese yen. The unrealized gain on these contracts at June 30, 1995 was \$464,000. The realized losses on yen-forward contracts during fiscal 1995 were offset by underlying realized gains on the receivables.

In May 1993, the Company had entered into a three year interest-rate swap agreement with a third party which was scheduled to mature in May 1996. Under the agreement, the third party assumed 4.5% of the 6% fixed interest rate payments related to the Company's \$66,000,000 convertible subordinated debentures, while the Company assumed variable interest rate [equal to the six-month London Interbank Offered Rate (LIBOR)] payments of the third party on a like principal amount. The net amount of interest payments assumed by the third party and interest payments made by the Company is included in interest expense. The fair value of the liability related to the Company's interest rate swap was \$1,216,000 at June 30, 1995. In May 1996, the Company's convertible subordinated debentures were converted into common stock, and in conjunction with the conversion of the convertible subordinated debentures, the Company terminated the interest-rate swap agreement and paid a nominal termination fee.

-----  
E INVENTORIES  
-----

Inventories consist of the following at June 30:

(in thousands)	1996	1995
Raw materials	\$167,513	\$ 80,910
Work-in-process	122,828	73,183
Finished goods	32,025	17,308
	\$322,366	\$171,401

-----  
LAM RESEARCH CORP. / 27  
-----

-----  
F EQUIPMENT AND LEASEHOLD IMPROVEMENTS  
-----

Equipment and leasehold improvements consist of the following at June 30:

(in thousands)	1996	1995
Equipment	\$120,770	\$ 80,910
Furniture and fixtures	45,740	25,372
Leasehold improvements	88,131	64,707
	254,641	170,989

Less allowance for depreciation and amortization	(83,802)	(53,418)
	-----	-----
	\$170,839	\$117,571
	-----	-----

-----  
G ACCRUED EXPENSES AND OTHER LIABILITIES  
-----

The significant components of accrued expenses and other liabilities consist of the following at June 30:

(in thousands)	1996	1995
-----	-----	-----
Warranty, installation, and product improvement reserves	\$ 62,180	\$40,986
Accrued compensation	27,752	22,260
Income and other taxes payable	45,471	22,546
Other	20,471	12,841
	-----	-----
	\$155,874	\$98,633
	-----	-----

-----  
H LINE OF CREDIT, LONG-TERM DEBT AND CAPITAL  
LEASE OBLIGATIONS  
-----

Long-term debt and capital lease obligations at June 30 consist of the following:

(in thousands)	1996	1995
-----	-----	-----
Japanese yen-denominated bank loans with fixed interest rates from 3.0% to 4.9%, principal payable in quarterly and semi-annual installments from July 1996 to April 2003	\$32,724	\$16,572
Notes payable to leasing companies with interest rates from 4.9% to 11.2%, payable in monthly installments through January 1998	1,121	2,391
Capitalized lease obligations with varying interest rates from 6.3% to 10.5%	30,043	15,508
6% convertible subordinated debentures due 2003	--	66,000
Other	1,934	3,029
	-----	-----
Less current portion	65,822 (12,896)	103,500 (7,572)
	-----	-----
	\$52,926	\$95,928
	-----	-----

During May 1996, the Company's convertible subordinated debentures were converted into 2,640,000 shares of the Company's common stock (see Note D).

During the second quarter of fiscal 1996, the Company entered into a syndicated bank line of credit totaling \$210,000,000, on which borrowings bear interest at the bank's prime rate or 0.7% to 0.9% over LIBOR. This syndicated bank line of credit expires in December 1998. At June 30, 1996, the Company had outstanding borrowings of \$25,000,000 against the syndicated bank line of credit. At June 30, 1995, the Company had lines of credit

available with four banks which together totaled \$50,000,000. No borrowings were outstanding at June 30, 1995. The Company's line of credit restrict the Company from paying dividends.

The notes payable to leasing companies are collateralized by equipment additions with a cost equal to the original principal amount of the notes.

At June 30, 1996, future maturities of long-term debt and minimum payments for capital lease obligations are as follows:

Year ending June 30 (in thousands)	Long term Debt	Capital Lease Obligations	Total
1997	\$ 3,444	\$11,495	\$14,939
1998	4,286	10,583	14,869
1999	8,006	8,405	16,411
2000	7,784	3,618	11,402
2001	5,916		5,916
Thereafter	6,343		6,343
Less amounts representing interest	--	(4,058)	(4,058)
	\$35,779	\$30,043	\$65,822

Long-term debt and capital lease obligations are collateralized by equipment included in equipment and leasehold improvements with a cost and accumulated depreciation and amortization of \$45,484,000 and \$(15,309,000), respectively, at June 30, 1996 and \$27,009,000 and \$(16,136,000), respectively, at June 30, 1995.

I INCENTIVE STOCK OPTION PLANS, PERFORMANCE-BASED STOCK PLAN AND STOCK PURCHASE PLAN

The Company has adopted incentive stock option plans that provide for the granting to qualified employees of incentive

LAM RESEARCH CORP. / 28

stock options to purchase shares of Common Stock. In addition, the plans permit the granting of nonstatutory stock options to paid consultants and employees and provides for the automatic grant of nonstatutory stock options to outside directors. The option price is determined by the Board of Directors, but in no event will it be less than the fair market value on the date of grant (no less than 85% of the fair market value at the date of grant in case of nonstatutory options). Options granted under the plans vest over a period determined by the Board of Directors. Under the automatic grant program, each outside director receives an option exercisable for 6,000 shares of Common Stock during January of each year with the exercise price equal to the fair market value on date of grant.

A summary of incentive stock option plan transactions follows:

	Authorized	Outstanding	Option Price
June 30, 1993	226,119	1,510,512	\$ 0.34-20.21
Additional amount authorized	900,000	--	--

Granted	(743,225)	743,225	26.29-35.88
Exercised	--	(281,528)	0.34-20.00
Cancelled	100,589	(100,589)	0.34-35.88
Expired	(9,767)	--	--
-----			
June 30, 1994	473,716	1,871,620	2.04-35.88
Additional amount authorized	1,075,000	--	--
Granted	(820,600)	820,600	28.00-63.88
Exercised	--	(563,965)	2.04-35.88
Cancelled	49,654	(49,654)	1.70-50.63
Expired	(5,481)	--	--
-----			
June 30, 1995	772,289	2,078,601	2.04- 63.88
Additional amount authorized	1,000,000	--	--
Granted	(1,995,948)	1,995,948	25.94- 68.00
Exercised	--	(156,552)	2.04- 45.13
Cancelled	1,121,602	(1,121,602)	2.04- 68.00
Expired	(8,174)	--	--
-----			
June 30, 1996	889,769	2,796,395	\$ 2.26-62.88
-----			

At June 30, 1996, 3,686,164 shares of Common Stock were reserved for future issuance under the stock option plans and options to purchase 1,165,055 shares were exercisable at a range of \$2.26-\$62.88.

During fiscal 1996, the Company adopted a Performance-Based Restricted Stock Plan designed to reward executives based upon the achievement of certain predetermined goals. The grant is based on the fair market value of the Company's common stock at the end of the quarter, provided the predetermined goals are met. The Company authorized 150,000 shares to be reserved for issuance under the Performance-Based Stock Plan. At June 30, 1996 132,802 shares remain available under this plan.

Common Stock is sold to employees under the 1984 Employee Stock Purchase Plan. During fiscal 1996, the Company authorized an additional 150,000 shares to be reserved for issuance under the 1984 Employee Stock Purchase Plan. The purchase price per share is the lower of 85% of the fair market value of the Common Stock on the first or last day of a six-month offering period. A total of 965,427 shares of the Company's Common Stock were issued under the Plan through June 30, 1996 at prices ranging from \$2.65 to \$43.03 per share. At June 30, 1996, 372,073 shares remain available for sale under this plan.

-----  
**J PROFIT SHARING PLAN AND BENEFIT PLAN**  
 -----

During fiscal 1995, the Company revised the profit sharing plan for its domestic employees. Distributions to employees by the Company are made quarterly based upon a percentage of base salary provided that a threshold level of the Company's financial performance is met. Upon achievement of the threshold, the profit sharing is awarded based upon performance against certain corporate financial and operating goals. Prior to fiscal 1995, distributions to the domestic employees under the profit sharing plan were made semi-annually based on 5% of pretax income provided certain minimum net income goals were met. Profit sharing plan expense for fiscal 1996, 1995 and 1994 was \$14,438,000, \$9,506,000, and \$3,008,000.

The Company maintains a 401(k) retirement savings plan for its full-time domestic employees. Beginning October 1, 1995, each participant in the plan may elect to contribute 2% to 15% of his or her annual salary to the

plan, subject to statutory limitations. Prior to October 1, 1995 each participant could elect to contribute 2% to 20% of his or her annual salary to the plan, subject to statutory limitations. Beginning January 1, 1994, the

LAM RESEARCH CORP. / 29

Company began to match employee contributions to the plan at the rate of 50% of the first 6% of salary contributed. The Company match expense for fiscal 1996, 1995 and 1994 was \$3,754,000, \$2,342,000, and \$770,000, respectively.

-----  
K COMMITMENTS  
-----

The Company leases its administrative, research and development, and manufacturing facilities, regional sales/service offices and certain equipment under noncancelable operating leases, which expire at various dates through 2006. All of the Company's facility leases for buildings located at its Fremont, California headquarters and certain operating leases provide the Company an option to extend the lease for additional periods. Certain of the Company's other facility leases provide for periodic rent increases based on the general rate of inflation.

Future minimum lease payments for the years ended June 30 and in the aggregate under operating leases consist of the following:

-----  
(in thousands)  
-----

1997	\$ 46,028
1998	44,176
1999	36,796
2000	29,057
2001	22,108
Thereafter	127,682
	-----
	\$305,847
	-----
	-----

During fiscal 1996, the Company entered into a ten year operating lease agreement for two buildings, an R&D building and an additional engineering building, which requires the Company to set aside \$47,317,000 as lease collateral five years after lease inception.

Total rental expense for all leases amounted to approximately \$35,303,000, \$9,528,000, and \$6,173,000, for the years ended June 30, 1996, 1995 and 1994, respectively.

-----  
L LICENSING/ROYALTY AGREEMENTS  
-----

The Company also receives royalty income from Tokyo Electron, Ltd. (TEL) under a licensing agreement signed in fiscal 1987 and extended in fiscal 1992 and 1996. For the years ended June 30, 1996, 1995 and 1994, the Company earned approximately \$20,700,000, \$10,500,000, and \$7,000,000, respectively, of royalty income from TEL. The current royalty agreement, which was due to expire December 31, 1996, has been extended with a new agreement effective January 1, 1997 which provides for royalties to be paid by TEL at a much lower rate than the current agreement.

The Company also receives royalty income from Sumitomo Metal, Ltd. (Sumitomo). Royalty income earned from Sumitomo for fiscal 1996, 1995 and 1994 amounted to approximately \$2,100,000, \$1,700,000, and \$1,800,000, respectively.

During fiscal 1995, the Company earned \$100,000 of royalty income from other sources.

-----  
M INCOME TAXES  
-----

Income tax expense consists of the following:

(in thousands)	1996	1995	1994
<b>Federal:</b>			
Current	\$61,950	\$36,093	\$23,544
Deferred	(18,397)	(10,247)	(13,310)
	43,553	25,846	10,234
<b>State:</b>			
Current	6,746	6,131	3,572
Deferred	(1,572)	(2,282)	--
	5,174	3,849	3,572
<b>Foreign:</b>			
Current	20,769	8,538	5,595
Deferred	(1,550)	--	--
	19,219	8,538	5,595
	\$67,946	\$38,233	\$19,401

Actual current tax liabilities are lower than reflected above for fiscal years 1996, 1995 and 1994 by \$1,719,000, \$7,128,000, and \$4,939,000, respectively, for the stock option deduction benefits recorded as a credit to stockholders' equity.

LAM RESEARCH CORP. / 30

Under FAS No. 109, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets as of June 30, are as follows:

(in thousands)	1996	1995
<b>Deferred tax assets:</b>		
Inventory valuation differences	\$21,696	\$15,969
Accounting reserves and accruals deductible in different periods	24,745	16,809
Net undistributed profits of foreign subsidiaries	6,753	--
Other	446	--
<b>Total deferred tax assets</b>	<b>53,640</b>	<b>32,778</b>
<b>Deferred tax liabilities:</b>		
Other	(2,055)	(2,712)
<b>Total deferred tax liabilities</b>	<b>(2,055)</b>	<b>(2,712)</b>
<b>Net deferred tax assets</b>	<b>\$51,585</b>	<b>\$30,066</b>

A reconciliation of income tax expense provided at the federal statutory rate (35% in 1996, 1995 and 1994) to income tax expense follows:

(in thousands)	1996	1995	1994
Income tax expense computed at federal statutory rate	\$73,163	\$44,605	\$20,005
Tax credits	--	(2,800)	(701)

State income taxes, net of federal tax benefits	3,363	2,502	2,322
Foreign sales corporation tax benefits	(9,074)	(5,250)	(2,038)
Other	494	(824)	(187)
-----			
	\$67,946	\$38,233	\$19,401
-----			
-----			

Income before income taxes from foreign operations for fiscal years 1996, 1995 and 1994 was \$42,216,000, \$17,830,000, and \$12,859,000, respectively. In addition, the Company received royalty and other income from foreign sources of \$22,814,000, \$12,227,000 and \$8,803,000, in fiscal years 1996, 1995 and 1994, respectively, which is subject to foreign tax withholding.

-----  
N LITIGATION  
-----

In October 1993, Varian Associates, Inc. (Varian) brought suit against the Company in the United States District Court, Northern District of California, seeking monetary damages and injunctive relief based on the Company's alleged infringement of certain patents held by Varian. The lawsuit is in the late stages of discovery and has recently been reassigned to a new judge. The Company has asserted defenses of invalidity and unenforceability of the patents that are the subject of the lawsuit, as well as noninfringement of such patents by the Company's products. While litigation is subject to inherent uncertainties and no assurance can be given that the Company will prevail in such litigation or will obtain a license under such patents on commercially reasonable terms or at all if such patents are held valid and infringed by the Company's products, the Company believes that the Varian lawsuit will not have a material adverse effect on the Company's consolidated financial statements.

In addition, the Company is from time to time notified by various parties that it may be in violation of certain patents. In such cases, it is the Company's intention to seek negotiated licenses where it is considered appropriate. The outcome of these matters will not, in management's opinion, have a material impact on the Company's consolidated financial position, operating results or cash flow statements.

-----  
O SUBSEQUENT EVENT (UNAUDITED)  
-----

In August 1996, the Company announced a restructuring of its operations, consolidating its previous business unit structure into centralized functional organizations. As a result of the restructuring, and in response to industry conditions, the Company reduced its workforce by approximately 11%. For the first quarter of fiscal 1997, the Company will record a restructuring charge of \$11.0 to \$12.0 million for costs resulting primarily from severance compensation and consolidation of related facilities.

LAM RESEARCH CORP. / 31

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

-----  
Board of Directors  
Lam Research Corporation  
Fremont, California

We have audited the accompanying consolidated balance sheets of Lam Research Corporation as of June 30, 1996 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lam Research Corporation at June 30, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 1996, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

July 29, 1996

San Jose, California

Design: Heiney & Craig, Inc., San Francisco

## SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARY -----	STATE OR OTHER JURISDICTION OF OPERATION -----
LAM RESEARCH GMBH	GERMANY
LAM RESEARCH CO., LTD.	JAPAN (KANAGAWA)
LAM RESEARCH CO., LTD.	JAPAN (SAITAMA)
LAM RESEARCH (SHANGHAI) CO., LTD	CHINA
LAM RESEARCH LTD.	UNITED KINGDOM
LAM RESEARCH SARL	FRANCE
LAM RESEARCH SINGAPORE PTE LTD	SINGAPORE
LRC INTERNATIONAL FSC CORPORATION	BARBADOS
LAM RESEARCH KOREA LIMITED	KOREA
LAM RESEARCH S.R.L.	ITALY
LAM RESEARCH (ISRAEL) LTD.	ISRAEL
LAM RESEARCH CO., LTD.	TAIWAN
LAM RESEARCH BV	NETHERLANDS
MONKOWSKI-RHINE, INCORPORATED	CALIFORNIA

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Lam Research Corporation of our report dated July 29, 1996, included in the 1996 Annual Report to Stockholders of Lam Research Corporation.

Our audits also included the financial statement schedule of Lam Research Corporation listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also consent to incorporation by reference in the Registration Statements (Form S-8 Nos. 33-32166, Amendment No. 1, and 33-43857) of our report dated July 29, 1996, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedules included in this Annual Report (Form 10-K) of Lam Research Corporation.

Ernst & Young LLP

San Jose, California  
September 18, 1996

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENT OF OPERATIONS, THE CONSOLIDATED BALANCE SHEET AND THE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		JUN-30-1996
<PERIOD-START>		JUL-01-1995
<PERIOD-END>		JUN-30-1996
<CASH>		62,879
<SECURITIES>		67,605
<RECEIVABLES>		258,430
<ALLOWANCES>		1,663
<INVENTORY>		322,366
<CURRENT-ASSETS>		776,845
<PP&E>		254,641
<DEPRECIATION>		83,802
<TOTAL-ASSETS>		969,365
<CURRENT-LIABILITIES>		306,653
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		30
<OTHER-SE>		609,756
<TOTAL-LIABILITY-AND-EQUITY>		969,365
<SALES>		1,254,070
<TOTAL-REVENUES>		1,276,884
<CGS>		663,181
<TOTAL-COSTS>		663,181
<OTHER-EXPENSES>		0
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		7,887
<INCOME-PRETAX>		209,037
<INCOME-TAX>		67,946
<INCOME-CONTINUING>		141,091
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		141,091
<EPS-PRIMARY>		4.92
<EPS-DILUTED>		4.67