UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 27, 2005 or

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

For the transition period from _________ to _________

Commission file number 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

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

4650 Cushing Parkway
Fremont, California 94538

(Address of principal executive offices including zip code)

(510) 572-0200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES ☑ NO ☐

As of April 27, 2005, there were 138,601,642 shares of Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LAM RESEARCH CORPORATION

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

	March 27, 2005 (unaudited)	June 27, 2004 (1)
ASSETS		
Cash and cash equivalents	$ 436,462	$ 163,403
Short-term investments	289,830	266,069
Accounts receivable, net	257,496	245,508
Inventories	120,353	108,249
Deferred income taxes	68,386	102,731
Prepaid expenses and other current assets	11,353	10,428
Total current assets	1,183,880	896,388
Property and equipment, net	43,167	42,444
Restricted cash	112,468	112,468
Deferred income taxes	102,685	106,505
Other assets	40,821	40,821
Total assets	$1,483,021	$1,198,626
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$ 64,242	$ 93,394
Accrued expenses and other current liabilities	224,238	172,343
Deferred profit	86,872	108,369
Current portion of long-term liabilities	—	2,500
Total current liabilities	375,352	376,606
Long-term liabilities less current portion	3,318	9,554
Total liabilities	378,670	386,160
Commitments and contingencies		
Preferred stock, at par value of $0.001 per share; authorized - 5,000 shares, none outstanding	—	—
Common stock, at par value of $0.001 per share; authorized - 400,000 shares; issued and outstanding - 139,554 shares at March 27, 2005 and 134,988 shares at June 27, 2004	140	135
Additional paid-in capital	749,134	628,076
Deferred stock-based compensation	(1,334)	(1,839)
Treasury stock, at cost, 3,634 shares at March 27, 2005 and 1,385 shares at June 27, 2004	(87,535)	(19,742)
Accumulated other comprehensive loss	(9,988)	(15,283)
Retained earnings	453,934	221,119
Total stockholders' equity	1,104,351	812,466
Total liabilities and stockholders' equity	$1,483,021	$1,198,626

(1) Derived from June 27, 2004 audited financial statements.

See Notes to Condensed Consolidated Financial Statements

LAM RESEARCH CORPORATION

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

	Three Months Ended		Nine Months Ended	
	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004
Total revenue	$349,337	$231,128	$1,148,686	$606,374
Cost of goods sold	174,767	125,337	560,453	336,179
Cost of goods sold — restructuring recoveries	—	(322)	—	(1,651)
Total cost of goods sold	174,767	125,015	560,453	334,528
Gross margin	174,570	106,113	588,233	271,846
Research and development	47,226	42,914	144,641	120,518
Selling, general and administrative	34,518	37,218	120,920	105,352
Restructuring charges, net	14,201	1,317	14,201	8,327
Total operating expenses	95,945	81,449	279,762	234,197
Operating income	78,625	24,664	308,471	37,649
Other income, net	643	877	1,949	2,794
Income before income taxes	79,268	25,541	310,420	40,443
Income tax expense	19,817	6,385	77,605	10,110
Net income	$ 59,451	$ 19,156	$ 232,815	$ 30,333
Net income per share:				
Basic net income per share	$ 0.42	$ 0.14	$ 1.69	$ 0.23
Diluted net income per share	$ 0.41	$ 0.13	$ 1.64	$ 0.22
Number of shares used in per share calculations:				
Basic	139,967	133,251	137,566	130,893
Diluted	144,756	147,365	142,362	138,527

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION

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

	Nine Months Ended	
	March 27, 2005	March 28, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 232,815	$ 30,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18,008	18,221
Amortization	1,204	3,750
Deferred income taxes	38,165	3,445
Restructuring charges, net	14,201	6,676
Amortization of premiums on securities	2,614	2,958
Amortization of deferred stock-based compensation	367	3,051
Income tax benefit from stock option exercises	30,353	—
Other, net	17	722
Change in other working capital accounts	(45,698)	5,589
Net cash provided by operating activities	292,046	74,745
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(18,623)	(11,011)
Purchases of available-for-sale securities	(179,817)	(418,475)
Sales and maturities of available-for-sale securities	152,073	431,456
Other, net	—	(200)
Net cash (used for)/provided by investing activities	(46,367)	1,770
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments and redemptions on long-term debt and capital lease obligations	—	(12)
Treasury stock purchases	(67,793)	—
Reissuances of treasury stock	—	9,057
Proceeds from issuance of common stock	90,848	54,862
Net cash provided by financing activities	23,055	63,907
Effect of exchange rate changes on cash	4,325	1,314
Net increase in cash and cash equivalents	273,059	141,736
Cash and cash equivalents at beginning of period	163,403	167,343
Cash and cash equivalents at end of period	$ 436,462	$ 309,079

See Notes to Condensed Consolidated Financial Statements

LAM RESEARCH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 27, 2005
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Lam Research Corporation (the Company or Lam) for the fiscal year ended June 27, 2004, which are included in the Annual Report on Form 10-K, File Number 0-12933. The Company's Form 10-K, Forms 10-Q and Forms 8-K are available online at the Securities and Exchange Commission website on the Internet. The address of that site is http://www.sec.gov. The Company also posts the Form 10-K, Forms 10-Q and Forms 8-K on the corporate website at http://www.lamrc.com.

The Company's reporting period is a 52/53-week fiscal year. The Company's current fiscal year will end June 26, 2005 and includes 52 weeks. The quarter ended March 27, 2005 and the quarter ended March 28, 2004 both included 13 weeks.

Reclassifications: Certain amounts presented in the comparative financial statements for prior years have been reclassified to conform to the fiscal 2005 presentation.

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and investments accounted for under the cost method or the equity method. In September 2004, the Financial Accounting Standards Board (FASB) issued a final FASB Staff Position, (FSP) EITF Issue 03-01-1, which indefinitely delays the effective date for the measurement and recognition guidance of EITF 03-01. The Company is currently evaluating the impact, if any, of adopting EITF 03-01.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs — An Amendment of ARB No. 43, Chapter 4," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). The Company is required to adopt SFAS No. 151 in fiscal year 2006 and its adoption is not expected to have a significant impact on the Company's results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and its related implementation guidance. In March, 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) which provides the Staff's views regarding interactions between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. SFAS No. 123(R) requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. This statement is effective for Lam for fiscal years beginning after June 15, 2005, with early adoption permitted. SFAS No. 123(R) will be effective for the Company beginning with the quarter ended September 25, 2005, and the Company has no plans for early adoption.

The effects of the adoption of SFAS No. 123(R) on the Company's results of operations and financial position are dependent upon a number of factors, including the number of employee stock options outstanding and unvested, the number of stock-based awards which may be granted in the future, the life and vesting features of stock-based awards which may be granted in the future, the future market value and volatility of the Company's stock, movements in the risk free rate of interest, award exercise and forfeiture patterns, and the valuation model used to estimate the fair value of each award. The Company is currently evaluating all of these variables, including expected volatility, in the design of its equity compensation program as well as the accounting requirements under SFAS No. 123(R) and SAB 107. Accordingly, it is not yet possible to reliably estimate the effect of the adoption of SFAS No. 123(R) on the Company's results of operations and financial position. However, the Company believes that the quarterly expense will range from $4 million to $11 million, net of taxes.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 also eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company will apply its provisions prospectively upon adoption, and its adoption is not expected to have a significant impact on the Company's results of operations or financial position.

NOTE 3 — STOCK-BASED COMPENSATION PLANS

The Company has adopted stock-based compensation plans that provide for the grant to employees of various equity incentive awards, including options to purchase shares of Lam common stock. In addition, these plans permit the grant of nonstatutory stock options to paid consultants and provide for the automatic grant of nonstatutory stock options to outside directors. The Company also has an employee stock purchase plan (ESPP) that allows employees to purchase its common stock.

The Company currently accounts for its stock option plans and stock purchase plan under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and FASB Interpretation (FIN) 44, "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25" (FIN 44). Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" as if the Company had accounted for its stock option and stock purchase plans under the fair value method of SFAS No. 123 and SFAS No. 148. The following table illustrates the effect on net income and net income per share if the Company had accounted for its stock option and stock purchase plans under the fair value method of accounting under SFAS No. 123 and SFAS No. 148:

	Three Months Ended		Nine Months Ended	
	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004
	(in thousands, except per share data)			
Net income — as reported	$ 59,451	$ 19,156	$232,815	$ 30,333
Add: compensation expense recorded under APB 25, net of tax	53	212	275	2,288
Deduct: SFAS No. 123 compensation expense, net of tax	3,270	6,297	13,469	20,881
Net income — pro forma	$ 56,234	$ 13,071	$219,621	$ 11,740
Basic net income per share — as reported	$ 0.42	$ 0.14	$ 1.69	$ 0.23
Basic net income per share — pro forma	0.40	0.10	1.60	0.09
Diluted net income per share — as reported	0.41	0.13	1.64	0.22
Diluted net income per share — pro forma	$ 0.39	$ 0.09	$ 1.54	$ 0.08

For pro forma purposes, the estimated fair value of the Company's stock-based awards is amortized over the options' vesting period (for options) and the respective four, eight, or twelve-month purchase periods (for stock purchases under the employee stock purchase plan). The fair value of the Company's stock options and stock purchase plan awards were estimated using a Black-Scholes option valuation model. The model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each option. The fair value of all of the Company's stock-based awards was estimated assuming no expected dividends and estimates of expected life, volatility and risk-free interest rate at the time of grant. The fair value of the Company's stock-based awards granted in the three and nine-month periods of fiscal 2005 and fiscal 2004 was estimated using the following weighted-average assumptions:

	Options				ESPP			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004
Expected life (years)	3.3	3.4	3.6	3.2	0.7	0.8	0.6	0.5
Expected stock price volatility	74%	74%	74%	74%	74%	74%	74%	74%
Risk-free interest rate	3.1%	2.1%	2.9%	2.0%	2.9%	2.0%	2.9%	2.0%

NOTE 4 — INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories consist of the following:

	March 27, 2005	June 27, 2004
	(in thousands)	
Raw materials	$ 53,458	$ 45,070
Work-in-process	28,612	41,353
Finished goods	38,283	21,826
	$120,353	$108,249

NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following:

	March 27 2005	June 27, 2004
	(in thousands)	
Manufacturing, engineering and office equipment	$ 99,182	$ 98,046
Computer equipment and software	63,595	59,062
Leasehold improvements	41,244	41,256
Furniture and fixtures	4,990	3,204
	209,011	201,568
Less: accumulated depreciation and amortization	(165,844)	(159,124)
	$ 43,167	$ 42,444

NOTE 6 — ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	March 27, 2005	June 27, 2004
	(in thousands)	
Accrued compensation	$ 91,941	$ 76,896
Warranty reserves	38,571	28,401
Income and other taxes payable	29,925	33,972
Restructuring reserves	21,675	5,093
Other	42,126	27,981
	$224,238	$172,343

NOTE 7 — OTHER INCOME, NET

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

	Three Months Ended		Nine Months Ended	
	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004
	(in thousands)			
Interest income	$ 4,812	$ 2,437	$ 10,394	$ 7,387
Interest expense	(421)	(627)	(1,408)	(1,996)
Foreign exchange gain (loss)	(3,353)	258	(3,047)	(49)
Debt issue cost amortization	—	(425)	—	(1,275)
Charitable contributions	—	—	(3,250)	—
Other, net	(395)	(766)	(740)	(1,273)
	$ 643	$ 877	$ 1,949	$ 2,794

NOTE 8 — NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed, using the treasury stock method, as though all potential common shares that are dilutive were outstanding during the period. The following table provides a reconciliation of the numerators and denominators of the basic and diluted computations for net income per share.

	Three Months Ended		Nine Months Ended	
	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004
	(in thousands, except per share data)			
Numerator:				
Numerator for basic net income per share	$ 59,451	$ 19,156	$232,815	$ 30,333
Add:				
Interest expense on convertible subordinated 4% notes, net of income taxes	—	434	—	—
Numerator for diluted net income per share	$ 59,451	$ 19,590	$232,815	$ 30,333
Denominator:				
Basic average shares outstanding	139,967	133,251	137,566	130,893
Effect of potential dilutive securities:				
Employee stock plans and warrant	4,789	7,437	4,796	7,634
Assumed conversion of convertible subordinated 4% notes	—	6,677	—	—
Diluted average shares outstanding	144,756	147,365	142,362	138,527
Net income per share - Basic	$ 0.42	$ 0.14	$ 1.69	$ 0.23
Net income per share - Diluted	$ 0.41	$ 0.13	$ 1.64	$ 0.22

For purposes of computing diluted net income per share, weighted-average common shares do not include potential dilutive securities whose exercise prices exceed the average market value of the Company's common stock for the period. The following potential dilutive securities were excluded:

	Three Months Ended		Nine Months Ended	
	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004
	(in thousands)			
Number of potential dilutive securities excluded	955	1,488	3,915	1,615

In addition, during the nine months ended March 28, 2004, 6.7 million potential dilutive securities related to the Company's convertible subordinated 4% notes were excluded for purposes of computing diluted net income per share because the effect would have been antidilutive. These Notes were repaid in June, 2004, two years prior to their maturity.

NOTE 9 — COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three Months Ended		Nine Months Ended	
	March 27, 2005	March 28, 2004	March 27, 2005	March 28, 2004
	(in thousands)			
Net income	$ 59,451	$ 19,156	$232,815	$ 30,333
Foreign currency translation adjustment	4,855	251	6,664	1,724
Unrealized gain (loss) on fair value of derivative financial instruments, net	(43)	(183)	(126)	(293)
Unrealized gain (loss) on financial instruments, net	(1,804)	633	(1,650)	154
Reclassification adjustment for loss (gain) on financial instruments included in earnings	188	(5)	407	(293)
Comprehensive income	$ 62,647	$ 19,852	$238,110	$ 31,625

The balance of accumulated other comprehensive loss is as follows:

	March 27, 2005	June 27, 2004
	(in thousands)	
Accumulated foreign currency translation adjustment	$ (6,681)	$(13,345)
Accumulated unrealized loss on fair value of derivative financial instruments, net	(76)	—
Accumulated unrealized loss on financial instruments	(3,231)	(1,938)
Accumulated other comprehensive loss	$ (9,988)	$(15,283)

NOTE 10 — GUARANTEES

The Company accounts for its guarantees in accordance with FASB Interpretation 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires a company that is a guarantor to make specific disclosures about its obligations under certain guarantees that it has issued. FIN 45 also requires a company (the Guarantor) to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee.

In March and June of 2003, the Company transferred certain lease agreements relating to various properties at its Fremont, California campus to a new lessor. These agreements require the Company to guarantee residual values of the leased properties to the lessor at the end of the lease terms in fiscal 2008 (in the case that the leases are not renewed, the Company does not exercise the purchase options, the lessor sells the properties and the sale price is less than the lessor's costs) of up to $98.7 million ($48.4 million for March 2003 and $50.3 million for June 2003). The terms of the guarantees are equal to the remaining terms of the related lease agreements. Under the accounting provisions of FIN 45, the Company recognized a liability of approximately $1.0 million ($0.5 million in March 2003 and $0.5 million in June 2003) for the related residual value guarantees under the leases. The value of these guarantees was determined by computing the estimated present value of the respective probability-weighted cash flows that might be expended under the guarantees over the respective leases' terms, and was discounted using the Company's risk adjusted borrowing rate of approximately 2%. The values of these respective guarantees have been recorded as prepaid rent, with the offset recorded as a liability, and the amounts are being amortized to income (for the liability) and to expense (for the prepaid rent) on a ratable basis over the five-year period of the leases. The total value of these guarantees as of March 27, 2005 was $ 0.6 million.

During the quarter ended March 27, 2005, the Company recognized additional liabilities of $14.2 million in connection with its guaranteed residual value obligation on certain leased facilities included in prior restructuring plans. During the March 2005 quarter, the Company contacted the lessor regarding the marketing of these facilities for sale. Please see Note 12 for additional discussion on the amount due and expected timing of payments.

The Company has issued certain indemnifications to its lessors under some of its operating lease agreements, such as, indemnification for various environmental matters. The Company has entered into certain insurance contracts to minimize its exposure related to such indemnifications. As of March 27, 2005, the Company has not recorded any liability on its financial statements in connection with these indemnifications, as the Company does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

The Company has an agreement with a financial institution that guarantees payment of its Japanese subsidiary's overdraft protection obligation. At March 27, 2005, the maximum potential amount of future payments the Company could be required to make under this agreement was approximately $2.9 million, although the Company's Japanese subsidiary did not owe any amounts under this agreement.

The Company has an agreement enabling it to sell to a financial institution certain U.S. Dollar-denominated receivables generated from the sale of its systems, subject to recourse provisions. The Company insures these sold receivables for approximately 90% of their value and guarantees payment of the remaining uninsured receivable value in the event that the payment obligation is not satisfied. Based on historical payment patterns, the Company has experienced negligible default on payment obligations and therefore, believes the risk of loss from default is minimal. The terms of these guarantees are from 90 days past the due date of the receivable, until collected. At March 27, 2005 the maximum potential amount of future payments the Company could be required to make under this agreement is approximately $3.6 million. As of March 27, 2005, the Company has not recorded any liability in connection with these guarantees, as the Company does not believe, based on information available, that it is probable that any material amounts will be paid under these guarantees.

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

The Company offers standard warranties on its systems that run generally for a period of 12 months from system acceptance, not to exceed 14 months from the date of shipment of the system to the customer. The liability amount is based on actual historical warranty spending activity by type of system, customer, and geographic region, modified for any known differences such as the impact of system reliability improvements.

Changes in the Company's product warranty reserves during the nine months ended March 27, 2005 and March 28, 2004, were as follows:

	(in thousands)
Balance at June 29, 2003	$ 16,985
Warranties issued during the period	15,429
Settlements made during the period	(11,405)
Change in liability for pre-existing warranties during the period, including expirations	(2,851)
Balance at March 28, 2004	$ 18,158

	(in thousands)
Balance at June 27, 2004	$ 28,401
Warranties issued during the period	32,383
Settlements made during the period	(15,547)
Change in liability for pre-existing warranties during the period, including expirations	(6,666)
Balance at March 27, 2005	$ 38,571

NOTE 11 — DERIVATIVE INSTRUMENTS AND HEDGING

The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). The Company has a policy that allows the use of derivative financial instruments, specifically foreign currency forward exchange rate contracts, to hedge foreign currency exchange rate fluctuations on forecasted revenue transactions denominated in Japanese Yen and other foreign currency denominated assets. The Company does not use derivatives for trading or speculative purposes.

The Company's policy is to attempt to minimize short-term business exposure to foreign currency exchange rate risks using an effective and efficient method to eliminate or reduce such exposures. In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. To protect against the reduction in value of forecasted Japanese Yen-denominated sales, the Company has instituted a foreign currency cash flow hedging program. The Company enters into foreign currency forward exchange rate contracts that generally expire within 12 months, and no later than 24 months. These foreign currency forward exchange contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in earnings in the same period the hedged revenue is recognized. Each period, hedges are tested for effectiveness by comparing the change in value of the derivative with the change in the value of the anticipated sales transactions. No gain or loss was recorded in the three and nine month periods ended March 27, 2005 and during the three months ended March 28, 2004 associated with forecasted transactions that failed to occur. A net gain of $0.3 million during the nine months ended March 28, 2004 was recognized in Other Income and Expense associated with cash flow hedges where the original forecasted transactions did not occur within the specified hedge period.

At March 27, 2005, the Company expects to reclassify the entire amount of $76,000 accumulated in other comprehensive income to earnings during the next 12 months due to the recognition in earnings of the hedged forecasted transactions.

The Company also enters into foreign currency forward exchange rate contracts to hedge the gains and losses generated by the remeasurement of Japanese Yen-denominated receivable balances. Under SFAS 133, these forward contracts are not designated hedges. Therefore, the change in fair value of these derivatives is recorded into earnings as a component of other income and offsets the change in fair value of the foreign currency denominated intercompany and trade receivables.

NOTE 12 — RESTRUCTURING ACTIVITIES

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

The Company has historically developed plans and incurred restructuring charges to respond to the high level of volatility and, at times, depressed levels of capital investment by the semiconductor industry. The Company systematically reviews its revenue outlook and forecasts and assesses their impact on required employment levels, facilities utilization, and outsourcing activities scope. Based on these evaluations, the Company's senior management committed to cost reduction and exit activities in the quarters ended March 28, 2004 (the March 2004 Plan), December 28, 2003 (the December 2003 Plan), September 28, 2003 (the September 2003 Plan), June 29, 2003 (the June 2003 Plan), March 30, 2003 (the March 2003 Plan), December 29, 2002 (the December 2002 Plan), December 30, 2001 (the December 2001 Plan), and September 23, 2001 (the September 2001 Plan).

Prior to the end of each quarter noted above, the Company initiated the announced restructuring activities and management with the proper level of authority approved specific actions under the respective Plan. Severance packages to potentially impacted employees were communicated in enough detail such that the employees could determine their type and amount of benefit. The termination of the affected employees occurred as soon as practical after the restructuring plans were announced. The amount of remaining future lease payments recorded in the restructuring charges include facilities for which a contract was terminated in accordance with its terms and charges for facilities, or a portion of facilities the Company ceased to use. Expenses were based on management's estimates using known prevailing real estate market conditions at that time based, in part, on the opinions of independent real estate experts. Leasehold improvements relating to the vacated buildings were written off, where these items were determined to have no future economic benefit to the Company and have been abandoned.

As of March 27, 2005, the overall restructuring reserve balance consisted of the following:

	Severance and Benefits	Facilities	Total
Fiscal 2004 restructurings	$ —	$ 11,789	$ 11,789
Fiscal 2003 restructurings	—	5,394	5,394
Fiscal 2002 restructurings	200	6,351	6,551
Pre-fiscal 2002 restructurings	—	612	612
Balance at March 27, 2005	200	24,146	24,346
Less: portion included in other current liabilities	200	21,475	21,675
Included in long-term liabilities	$ —	$ 2,671	$ 2,671

The severance and benefits-related balance is anticipated to be utilized by the end of calendar year 2005. The facilities balance consists primarily of lease payments on vacated buildings and is expected to be utilized by the end of fiscal year 2010.

Fiscal 2005 Activity

During the quarter ended March 27, 2005, the Company recognized additional liabilities of $14.2 million in connection with its guaranteed residual value obligation on certain leased facilities included in prior restructuring plans. During the March 2005 quarter, the Company contacted the lessor regarding the marketing of these facilities for sale. The Company concluded, under the provisions of SFAS No. 5, "Accounting for Contingencies", that a liability had been incurred. This transaction resulted in an increase of $10.2 million and $4.0 million to the Company's Fiscal 2004 and Fiscal 2002 restructuring plans accruals, respectively, as noted in the tables below. These amounts are included in accrued expenses and other current liabilities in the Condensed

Consolidated Balance Sheet as the Company expects payment to occur within the next twelve months.

Fiscal 2004 Restructuring Activities

The Company's fiscal 2004 restructuring activities included reducing its workforce by less than 40 employees, primarily in North America and Europe and by vacating selected facilities located in North America and Asia deemed to be no longer necessary to its operations. The employees were from a range of functions and at multiple levels of the organization.

The Company recorded net restructuring charges during fiscal 2004 of approximately $6.7 million, consisting of severance and benefits for involuntarily terminated employees of $1.2 million, charges for the present value of remaining lease payments on vacated facilities of $2.8 million, and the write-off of related leasehold improvements of $1.6 million. The Company also recorded a charge of approximately $1.0 million due to the cancellation of a lease agreement related to one of its facilities in Japan and $2.1 million for the write-off of related leasehold improvements.

The Company recognized $1.9 million of additional facilities-related expenses due to changes in estimates of restructuring plans initiated prior to fiscal 2004. Charges during the year were partially offset by the recovery of $1.5 million of previously accrued expenses related to the remaining lease payments on vacated facilities in Japan. Additional offsetting items include recovery of $0.7 million due to lower than previously estimated employee severance and benefits costs and $1.7 million of recovered inventory from unanticipated sales to the Company's installed base of certain portions of inventory previously written off as part of its September 2001 restructuring. The inventory recovery was recorded as a credit in cost of goods sold.

The fiscal 2005 restructuring charge of $10.2 million in the table below is for the additional liabilities for unoccupied facilities discussed above in Fiscal 2005 Activity.

The following is a table summarizing restructuring activities relating to the Company's fiscal year 2004 restructuring plans:

	Severance and Benefits	Facilities	Total
Balance at June 27, 2004	$ 30	$ 2,077	$ 2,107
Fiscal 2005 restructuring charge	—	10,157	10,157
Cash payments	(30)	(445)	(475)
Balance at March 27, 2005	$ —	$ 11,789	$ 11,789

Fiscal 2003 Restructuring Activities

The Company's senior management committed to cost reduction and exit activities during fiscal 2003 through its June 2003, March 2003 and December 2002 Plans and recorded restructuring charges during fiscal 2003 of approximately $18.1 million. The Company's fiscal 2003 restructuring activities included reducing its workforce in North America, Europe, and Asia by approximately 200 people and vacating selected sales and administrative facilities located in North America, Europe, and Asia deemed to be no longer required for its operations. The employees included in the Plans were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America.

The $18.1 million restructuring charges consisted of $5.7 million of severance and benefits for involuntarily terminated employees and $12.4 million of facilities-related charges. The facilities-related charges consisted of the present value of remaining lease payments on vacated facilities, a loss on the fair value of a vacated facility and the write-off of related leasehold improvements. In June 2003, a lease covering one of the Company's vacated facilities at its Fremont, California campus was amended, combined, restated, and transferred to a new lessor under a single lease structure. At the time of the amendment, the leased facility's fair value was less than its original cost by approximately $1 million. Accordingly, this amount was recorded as a loss on the fair value of the vacated facility and included in the $18.1 million of restructuring charges.

The following is a table summarizing restructuring activities relating to the Company's fiscal year 2003 restructuring plans:

	Severance and Benefits	Facilities	Total
Balance at June 27, 2004	$ 183	$ 6,451	$ 6,634
Cash payments	(183)	(1,057)	(1,240)
Balance at March 27, 2005	$ —	$ 5,394	$ 5,394

Fiscal 2002 Restructuring Activities

The Company's senior management committed to cost reduction and exit activities during fiscal 2002 through its December 2001 and September 2001 Plans and recorded restructuring charges during fiscal 2002 of approximately $54.8 million. The Company's fiscal 2002 restructuring activities included reducing its workforce in North America, Europe, and Asia by approximately 1,020 people, vacating selected facilities at its Fremont, California campus deemed to be no longer required for its operations, the closure of certain offices in Asia, and discontinuance of the manufacture of specific products within its etch product lines. The employees were from a broad range of functions and at multiple levels of the organization, with approximately 83% from North America and approximately 17% from Europe and Asia Pacific locations.

The restructuring charges included severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, write-off of related leasehold improvements and fixed assets, and inventory write-downs. The inventory charge of approximately $7.6 million related to the Company's decision to discontinue manufacture of specific systems within its etch product lines. The Company recovered approximately $1.7 million during fiscal year 2004, $1.0 million during fiscal year 2003, and $0.7 million during fiscal year 2002, from unanticipated subsequent sales of these inventories to its installed base. The Company physically disposed of approximately $1.0 million of this inventory during fiscal 2004 and $2.7 million during fiscal 2003 and 2002. During fiscal 2002, the Company also recovered approximately $1.0 million of the $54.8 million due to lower than estimated employee termination costs of $0.7 million and lower than planned expenses related to a vacated facility of $0.3 million. During fiscal 2004, the Company recorded approximately $0.4 million of additional restructuring charges due to a revision in estimates for one of its vacated facilities and the Company recovered approximately $1.4 million, net, due to the difference between costs previously accrued and actual costs to terminate a lease agreement for a facility for which it entered into a lease cancellation agreement during fiscal 2004.

During fiscal 2003, the Company recovered approximately $2.7 million for benefits offered that were not utilized by terminated employees and $2.0 million was recovered due to revisions to the net amount of lease payments remaining on vacated facilities. The Company also recorded additional restructuring charges during fiscal 2003 of $3.1 million due to revisions the Company made in sublease assumptions for two of its vacated buildings in Fremont, California, $0.1 million due to additional facility restoration costs, and $0.4 million for revisions that the Company made in its estimates for employee termination costs.

The fiscal 2005 restructuring charge of $4.0 million in the table below is for the additional liabilities for unoccupied facilities discussed above in Fiscal 2005 Activity.

The following is a table summarizing restructuring activities relating to the Company's fiscal year 2002 restructuring plans:

	Severance and Benefits	Facilities	Total
Balance at June 27, 2004	$ 389	$ 3,496	$ 3,885
Fiscal 2005 restructuring charge	—	4,044	4,044
Cash payments	(189)	(1,189)	(1,378)
Balance at March 27, 2005	$ 200	$ 6,351	$ 6,551

Fiscal 2001 Restructuring Activities

During the second quarter of fiscal 2003, the Company completed the remaining elements of its restructuring activities under the June 2001 Plan. A final $1.1 million of restructuring charges was recovered due to lower than estimated employee termination costs. The remaining $0.6 million facilities balance as of March 27, 2005 is expected to be paid by January, 2006.

NOTE 13 – STOCK REPURCHASE PROGRAM

In October, 2004, the Company announced that its Board of Directors had authorized the repurchase of up to $250 million of Company common stock from the public market or in private purchases. The terms of the repurchase program permit the Company to repurchase shares through September 30, 2007. The Company plans to continue to execute the program. Share repurchases for the nine months ended March 27, 2005 were as follows:

Period	Total Number of Shares Purchased	Total Cost of Repurchase	Maximum Amount of $'s that May Yet Be Purchased Under the Plan
		(in thousands)	
Quarter Ending December 26, 2004	—	$ —	$ 250,000
Quarter Ending March 27, 2005	2,250	67,793	$ 182,207
Total	2,250	$ 67,793	

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

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements that relate to our future revenue, product development, demand, acceptance and market share, competitiveness, gross margins, levels of research and development (R&D), outsourcing plans and operating expenses, tax expenses, our management's plans and objectives for our current and future operations, management's plans for repurchasing Company stock pursuant to the authorization of our Board, the effects of our restructurings and consolidation of operations and facilities, our ability to complete contemplated restructurings or consolidations on time or within anticipated costs, the levels of customer spending or R&D activities, general economic conditions and the sufficiency of financial resources to support future operations, and capital expenditures. Such statements are based on current expectations and are subject to risks, uncertainties, and changes in condition, significance, value and effect, including those discussed below under the heading "Risk Factors" within the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other documents we file from time to time with the Securities and Exchange Commission (SEC), such as our last filed Annual Report on Form 10-K for the fiscal year ended June 27, 2004, our quarterly report on Form 10-Q for the quarter ended December 26, 2004, and our current reports on Form 8-K. Such risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed herein and in ways not readily foreseeable. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on information currently and reasonably known to us. We undertake no obligation to release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances, which occur after the date hereof or to reflect the occurrence or effect of anticipated or unanticipated events.

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

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes presented in this Form 10-Q and the financial statements and notes in our last filed Annual Report on Form 10-K as of June 27, 2004 and Form 10-Q for the three and six months ended December 26, 2004 for a full understanding of our financial position and results of operations for the three and nine months ended March 27, 2005.

RESULTS OF OPERATIONS

Lam Research Corporation (Lam or the Company) is a major supplier of wafer fabrication equipment and services to the world's semiconductor industry. We actively market and sell product offerings that include single-wafer plasma etch systems with a wide range of applications, wafer cleaning systems, and an array of services designed to optimize the utilization of these systems by our customers.

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Over recent business cycles, the severity of these fluctuations has increased, and today's leading indicators of changes in customer investment patterns may not be any more reliable than in prior years. Demand for our equipment can vary significantly from period to period as a result of various factors, including, but not limited to, economic conditions, supply, demand, and prices for semiconductors, customer capacity requirements, and our ability to develop and market competitive products. For these and other reasons, our results of operations for the three and nine months ended March 27, 2005 may not necessarily be indicative of future operating results.

New Orders

New orders recorded into backlog during fiscal year 2005 were approximately:

Three Months Ended		
March 27, 2005	December 26, 2004	September 26, 2004
	(in millions)	
$ 315	$ 387	$ 429

Regional geographic breakdown of new orders is as follows:

	Three Months Ended		
	March 27, 2005	December 26, 2004	September 26, 2004
North America	16%	14%	20%
Europe	19%	9%	19%
Asia Pacific	29%	25%	26%
Korea	14%	40%	15%
Japan	22%	12%	20%

Indicators of customer demand for wafer processing equipment improved in the quarter ended September 28, 2003 and continued through the quarter ended September 26, 2004. New orders for the quarter ended December 26, 2004 decreased by approximately 10% compared to the quarter ended September 26, 2004. New orders for the quarter ended March 27, 2005 decreased 19% sequentially. The March 2005 quarter sequential decline realized in Korea was tempered by new orders growth in Japan, Europe and Asia Pacific while North America remained essentially flat.

The basis for recording new orders is defined in our backlog policy. Our policy is to make adjustments to our backlog to reflect, among other things, customer delivery date changes as well as order cancellations. Please refer to Item 1, Business, in our Annual Report on Form 10-K for the fiscal year ended on June 27, 2004 for additional information on our backlog policy. Unshipped orders in backlog were approximately $399 million as of March 27, 2005.

We expect new orders for the quarter ending June 26, 2005 to remain essentially flat from the quarter ended March 27, 2005.

Revenue

	Three Months Ended			Nine Months Ended	
	March 27, 2005	December 26, 2004	March 28, 2004	March 27, 2005	March 28, 2004
		(in thousands)		(in thousands)	
Revenue	$349,337	$ 379,800	$231,128	$1,148,686	$606,374

Revenue for the quarter ended March 27, 2005 was consistent with our expectations and decreased approximately 8% sequentially as a function of the decline in new orders combined with customer acceptance cycle times around the world. Revenue increased significantly in both the three and nine months ended March 27, 2005 as compared with the same periods in the prior year. These increases reflected an improved market environment which was evidenced by expanded levels of capital investments by semiconductor manufacturers and customer acceptance cycle times. Our deferred revenue balance was $152.8 million as of March 27, 2005. The invoice value of orders shipped from backlog to Japanese customers that are not recorded as deferred revenue, until title transfers, was approximately $49 million as of March 27, 2005. These shipments are classified as inventory and carried at cost.

Our current estimate for revenues for the June 2005 quarter ranges from $340 million to $360 million.

Regional geographic breakdown of revenue is as follows:

	Three Months Ended			Nine Months Ended	
	March 27, 2005	December 26, 2004	March 28, 2004	March 27, 2005	March 28, 2004
North America	17%	14%	15%	15%	20%
Europe	13%	12%	19%	11%	20%
Asia Pacific	17%	42%	41%	41%	40%
Korea	35%	15%	12%	18%	9%
Japan	18%	17%	13%	15%	11%

Gross Margin

	Three Months Ended			Nine Months Ended	
	March 27, 2005	December 26, 2004	March 28, 2004	March 27, 2005	March 28, 2004
	(in thousands, except percentages)			(in thousands, except percentages)	
Gross Margin	$174,570	$ 198,902	$106,113	$ 588,233	$ 271,846
Percent of total revenue	50.0%	52.4%	45.9%	51.2%	44.8%

Gross margin of 50.0% during the quarter ended March 27, 2005 exceeded our expectations of 48%-49%, primarily as a result of more efficient installation and warranty performance and our focus on field resource utilization. Gross margin during the March 2005 quarter decreased sequentially on lower revenues and a return to a more normal mix of customer configuration choices and material content.

The increase during both the quarter and nine months ended March 27, 2005 as compared with the same periods in the prior year is primarily due to sales volume growth and improved utilization of factory and field resources. In addition, continued expense control, asset management, and our focus on installation and warranty contributed to the improvement.

We expect gross margin as a percent of revenue will be approximately 50% in the June 2005 quarter.

Research and Development

	Three Months Ended			Nine Months Ended	
	March 27, 2005	December 26, 2004	March 28, 2004	March 27, 2005	March 28, 2004
	(in thousands, except percentages)			(in thousands, except percentages)	
Research and Development	$ 47,226	$ 47,057	$ 42,914	$ 144,641	$ 120,518
Percent of total revenue	13.5%	12.4%	18.6%	12.6%	19.9%

We continue to invest significantly in research and development while focusing on opportunities to improve the efficiency and effectiveness of our spending. Our investments have been aimed at strengthening our product and services portfolio via the introduction of next-generation products as well as enhancing our existing offerings. As expected, R&D expenses for the quarter ended March 27, 2005 were essentially flat as compared with the quarter ended December 26, 2004. The growth in absolute spending levels during the three and nine months ended March 27, 2005 as compared to the same periods in the prior year is primarily due to increases in salary and benefits costs of approximately $1 million and $6 million, respectively, for planned increases of employee base compensation as well as roughly $2 million and $10 million, respectively, for incentive-based benefits triggered by higher profits. The remainder of the increase during the nine-month period ended March 27, 2005, as compared to the same period in the prior year, was primarily the result of an increase in R&D supplies expense of approximately $6 million.

Selling, General and Administrative

	Three Months Ended			Nine Months Ended	
	March 27, 2005	December 26, 2004	March 28, 2004	March 27, 2005	March 28, 2004
	(in thousands, except percentages)			(in thousands, except percentages)	
Selling, General & Administrative (SG&A)	$ 34,518	$ 43,275	$ 37,218	$ 120,920	$ 105,352
Percent of total revenue	9.9%	11.4%	16.1%	10.5%	17.4%

SG&A expenses for the quarter ended March 27, 2005 decreased sequentially primarily as a result of the receipt of a tax refund of $8.0 million, net of professional fees incurred. The California State Board of Equalization issued this refund to us for previously paid sales and use tax. Excluding the tax refund, the underlying SG&A cost structure during the quarter ended March 27, 2005 remained essentially flat as compared with the quarter ended December 26, 2004. The decrease in SG&A expenses during the quarter ended March 27, 2005 as compared with the quarter ended March 28, 2004 includes the net tax refund noted above of $8.0 million, partially offset by increases in salary and benefits costs of approximately $2 million due to planned increases of employee base compensation and headcount increases as well as roughly $3 million due to incentive-based benefits triggered by higher profits.

Increases during the nine months ended March 27, 2005 as compared with the same period in the prior year include increases in salary and benefits costs of approximately $4 million due to planned increases of employee base compensation as well as roughly $14 million due to incentive-based benefits triggered by higher profits, offset by the $8 million net tax refund noted above and approximately $3 million in compensation expense recorded in the quarter ended September 28, 2003 in connection with the modification of terms of a fixed stock option award previously issued to our Chairman and Chief Executive Officer. Certain discretionary information technology projects also contributed to the increase.

We expect total operating expenses (R&D and SG&A) in the June 2005 quarter to be in the range of $93 million to $94 million primarily as a result of accelerated R&D investments in new products and product enhancement programs.

Restructuring Activities

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

We have historically developed plans and incurred restructuring charges to respond to the high level of volatility and, at times, depressed levels of capital investment by the semiconductor industry. We systematically review our revenue outlook and forecasts and assess their impact on required employment levels, facilities utilization, and outsourcing activities scope. Based on these evaluations, our senior management committed to cost reduction and exit activities in the quarters ended March 28, 2004 (the March 2004 Plan), December 28, 2003 (the December 2003 Plan), September 28, 2003 (the September 2003 Plan), June 29, 2003 (the June 2003 Plan), March 30, 2003 (the March 2003 Plan), December 29, 2002 (the December 2002 Plan), December 30, 2001 (the December 2001 Plan), and September 23, 2001 (the September 2001 Plan).

Prior to the end of each quarter noted above, we initiated the announced restructuring activities and management with the proper level of authority approved specific actions under the respective Plan. Severance packages to potentially impacted employees were communicated in enough detail such that the employees could determine their type and amount of benefit. The termination of the affected employees occurred as soon as practical after the restructuring plans were announced. The amount of remaining future lease payments recorded in the restructuring charges include facilities for which a contract was terminated in accordance with its terms and charges for facilities, or a portion of facilities we ceased to use. Expenses were based on management's estimates using known prevailing real estate market conditions at that time based, in part, on the opinions of independent real estate experts. Leasehold improvements relating to the vacated buildings were written off, where these items were determined to have no future economic benefit to us and have been abandoned.

As of March 27, 2005, the overall restructuring reserve balance consisted of the following:

	Severance and Benefits	Facilities	Total
Fiscal 2004 restructurings	$ —	$ 11,789	$ 11,789
Fiscal 2003 restructurings	—	5,394	5,394
Fiscal 2002 restructurings	200	6,351	6,551
Pre-fiscal 2002 restructurings	—	612	612
Balance at March 27, 2005	200	24,146	24,346
Less: portion included in other current liabilities	200	21,475	21,675
Included in long-term liabilities	$ —	$ 2,671	$ 2,671

The severance and benefits-related balance is anticipated to be utilized by the end of calendar year 2005. The facilities balance consists primarily of lease payments on vacated buildings and is expected to be utilized by the end of fiscal year 2010.

Fiscal 2005 Activity

During the quarter ended March 27, 2005, we recognized additional liabilities of $14.2 million in connection with our guaranteed residual value obligation on certain leased facilities included in prior restructuring plans. During the March 2005 quarter, we contacted the lessor regarding the marketing of these facilities for sale. We concluded, under the provisions of SFAS No. 5, "Accounting for Contingencies", that a liability had been incurred. This transaction resulted in an increase of $10.2 million and $4.0 million to our Fiscal 2004 and Fiscal 2002 restructuring plans accruals, respectively, as noted in the tables below. These amounts are included in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheet as we expect payment to occur within the next twelve months.

Fiscal 2004 Restructuring Activities

Our fiscal 2004 restructuring activities included reducing our workforce by less than 40 employees, primarily in North America and Europe and by vacating selected facilities located in North America and Asia deemed to be no longer necessary to our operations. The employees were from a range of functions and at multiple levels of the organization.

We recorded net restructuring charges during fiscal year 2004 of approximately $6.7 million, consisting of severance and benefits for involuntarily terminated employees of $1.2 million, charges for the present value of remaining lease payments on vacated facilities of $2.8 million, and the write-off of related leasehold improvements of $1.6 million. We also recorded a charge of approximately $1.0 million due to the cancellation of a lease agreement related to one of our facilities in Japan and $2.1 million for the write-off of related leasehold improvements.

We recognized $1.9 million of additional facilities-related expenses due to changes in estimates of restructuring plans initiated prior to fiscal 2004. Charges during the year were partially offset by the recovery of $1.5 million of previously accrued expenses related to the remaining lease payments on vacated facilities in Japan. Additional offsetting items include recovery of $0.7 million due to lower than previously estimated employee severance and benefits costs and $1.7 million of recovered inventory from unanticipated sales to our installed base of certain portions of inventory previously written off as part of our September 2001 restructuring. The inventory recovery was recorded as a credit in cost of goods sold.

As a result of the fiscal 2004 restructuring activities, we expect quarterly savings, relative to the cost structure immediately preceding the activities, in total expenses of approximately $0.3 million from the March 2004 Plan, $0.7 million from the December 2003 Plan and $0.5 million from the September 2003 Plan. The majority of the savings are expected to be realized within Operating Expenses, mainly Selling, General and Administrative expenses. These estimated savings from the Plans' discrete actions are primarily related to lower employee payroll, facilities, and depreciation expenses. Actual savings may vary from these forecasts, depending upon future events and circumstances, such as differences in actual sublease income versus estimated amounts. Through March 27, 2005, we believe actual savings from these Plans are largely consistent with original estimated quarterly savings.

The fiscal 2005 restructuring charge of $10.2 million in the table below is for the additional liabilities for unoccupied facilities discussed above in Fiscal 2005 Activity.

The following is a table summarizing restructuring activities relating to our fiscal year 2004 restructuring plans:

	Severance and Benefits	Facilities	Total
Balance at June 27, 2004	$ 30	$ 2,077	$ 2,107
Fiscal 2005 restructuring charge	—	10,157	10,157
Cash payments	(30)	(445)	(475)
Balance at March 27, 2005	$ —	$ 11,789	$ 11,789

Fiscal 2003 Restructuring Activities

Our senior management committed to cost reduction and exit activities during fiscal 2003 through our June 2003, March 2003 and December 2002 Plans and recorded restructuring charges of approximately $18.1 million. Our fiscal 2003 restructuring activities included reducing our workforce in North America, Europe, and Asia by approximately 200 people and vacating selected sales and administrative facilities located in North America, Europe, and Asia deemed to be no longer required for our operations. The employees included in the Plans were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America.

The $18.1 million restructuring charges consisted of $5.7 million of severance and benefits for involuntarily terminated employees and $12.4 million of facilities-related charges. The facilities-related charges consisted of the present value of remaining lease payments on vacated facilities, a loss on the fair value of a vacated facility and the write-off of related leasehold improvements. In June 2003, a lease covering one of our vacated facilities at our Fremont, California campus was amended, combined, restated, and transferred to a new lessor under a single lease structure. At the time of the amendment, the leased facility's fair value was less than its original cost by approximately $1 million. Accordingly, this amount was recorded as a loss on the fair value of the vacated facility and included in the $18.1 million of restructuring charges.

As a result of the fiscal 2003 restructuring activities, we expect quarterly savings, relative to the cost structure immediately preceding the activities, of approximately $1.0 million from the June 2003 Plan, $1.0 million from the March 2003 Plan, and $3.0 million from the December 2002 Plan. The majority of the savings were expected to be realized within Operating Expenses, mainly Selling, General and Administrative expenses. These estimated savings were primarily from lower payroll, facilities, and depreciation expenses. Through March 27, 2005, we believe realized savings are consistent with original forecasts. However, other factors may significantly influence our future cost structure and, consequently, partially or totally offset savings from these Plans.

The following is a table summarizing restructuring activities relating to our fiscal year 2003 restructuring plans:

	Severance and Benefits	Facilities	Total
Balance at June 27, 2004	$ 183	$ 6,451	$ 6,634
Cash payments	(183)	(1,057)	(1,240)
Balance at March 27, 2005	$ —	$ 5,394	$ 5,394

Fiscal 2002 Restructuring Activities

Our senior management committed to cost reduction and exit activities during fiscal 2002 through our December 2001 and September 2001 Plans and recorded restructuring charges during fiscal 2002 of approximately $54.8 million. Our fiscal 2002 restructuring activities included reducing our workforce in North America, Europe, and Asia by approximately 1,020 people, vacating selected facilities at our Fremont, California campus deemed to be no longer required for our operations, the closure of certain offices in Asia, and discontinuance of the manufacture of specific products within our etch product lines. The employees were from a broad range of functions and at multiple levels of the organization, with approximately 83% from North America and approximately 17% from Europe and Asia Pacific locations.

The restructuring charges included severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, write-off of related leasehold improvements and fixed assets, and inventory write-downs. The inventory charge of approximately $7.6 million related to our decision to discontinue manufacture of specific systems within our etch product lines. We recovered approximately $1.7 million during fiscal year 2004, $1.0 million during fiscal year 2003, and $0.7 million during fiscal year 2002, from unanticipated subsequent sales of these inventories to our installed base. We physically disposed of approximately $1.0 million of this inventory during fiscal 2004 and $2.7 million during fiscal 2003 and 2002. During fiscal 2002, we also recovered approximately $1.0 million of the $54.8 million due to lower than estimated employee termination costs of $0.7 million and lower than planned expenses related to a vacated facility of $0.3 million. During fiscal 2004, we recorded approximately $0.4 million of additional restructuring charges due to a revision in estimates for one of our vacated facilities and we recovered approximately $1.4 million, net, due to the difference between costs previously accrued and actual costs to terminate a lease agreement for a facility for which we entered into a lease cancellation agreement during fiscal 2004.

During fiscal 2003, we recovered approximately $2.7 million for benefits offered that were not utilized by terminated employees and $2.0 million was recovered due to revisions to the net amount of lease payments remaining on vacated facilities. We also recorded restructuring charges during fiscal 2003 of $3.1 million due to revisions we made in sublease assumptions for two of our vacated buildings in Fremont, California, $0.1 million due to additional facility restoration costs, and $0.4 million for revisions that we made in our estimates for employee termination costs.

The fiscal 2005 restructuring charge of $4.0 million in the table below is for the additional liabilities for unoccupied facilities discussed above in Fiscal 2005 Activity.

The following is a table summarizing restructuring activities relating to our fiscal year 2002 restructuring plans:

	Severance and Benefits	Facilities	TOTAL
Balance at June 27, 2004	$ 389	$ 3,496	$ 3,885
Fiscal 2005 restructuring charge	—	4,044	4,044
Cash payments	(189)	(1,189)	(1,378)
Balance at March 27, 2005	$ 200	$ 6,351	$ 6,551

Fiscal 2001 Restructuring Activities

During the second quarter of fiscal 2003, we completed the remaining elements of our restructuring activities under the June 2001 Plan. A final $1.1 million of restructuring charges was recovered due to lower than estimated employee termination costs. The remaining $0.6 million facilities balance as of March 27, 2005 is expected to be paid by January, 2006.

Other Income, net

Other income, net consisted of the following:

	Three Months Ended			Nine Months Ended	
	March 27, 2005	December 26, 2004	March 28, 2004	March 27, 2005	March 28, 2004
			(in thousands)		
Interest income	$ 4,812	$ 3,189	$ 2,437	$ 10,394	$ 7,387
Interest expense	(421)	(444)	(627)	(1,408)	(1,996)
Foreign exchange gain (loss)	(3,353)	(117)	258	(3,047)	(49)
Debt issue cost amortization	—	—	(425)	—	(1,275)
Charitable contributions	—	(1,250)	—	(3,250)	—
Other, net	(395)	(80)	(766)	(740)	(1,273)
	$ 643	$ 1,298	$ 877	$ 1,949	$ 2,794

The sequential increase in interest income during the quarter ended March 27, 2005 was due primarily to the increase in cash balances while the increase during both the three and nine months ended March 27, 2005 as compared with the same periods in the prior year was primarily the result of an increase in interest rate yields. The increase in foreign exchange losses in both the three and nine months ended March 27, 2005 was primarily due to the Company's exposure to U.S. dollar denominated assets held by non-U.S. dollar functional subsidiaries where certain foreign currencies, primarily the Taiwan Dollar and Singapore Dollar, strengthened against the U.S. dollar. Interest expense and debt issue cost amortization decreased due to the early retirement of our convertible subordinated 4% notes in June 2004.

Income Tax Expense

Our effective tax rate was 25% for the three and nine months ended March 27, 2005 and March 28, 2004. Our effective tax rate reflects the underlying profitability of the Company, the region where profits are recorded and the respective tax rates imposed. Our fiscal 2005 tax rate estimate is based on our current profitability outlook, including our continued and substantial investments in research and development programs qualifying for R&D tax benefits, and our expectations of earnings from operations in lower-tax jurisdictions throughout the world. We have implemented strategies to, in the longer-term, limit our tax liability on the sale of our products worldwide. These tax strategies are structured to align the asset ownership and functions of our various legal entities around the world, with our forecasts of the level, timing, and sources of future revenues and profits.

On October 22, 2004 the American Jobs Creation Act (AJCA) was signed into law. The AJCA provides for a deduction of 85% of certain non-U.S. earnings that are repatriated to the U.S., as defined in the AJCA. We may elect to apply this provision to qualifying earnings repatriations in either fiscal 2005 or 2006. On January 13, 2005 the U.S. Treasury published Notice 2005-10 providing guidance on the implementation of the repatriation deduction. Based on our current understanding of the AJCA, we believe the range of possible amounts that we may consider for repatriation under this provision is between zero and $500 million. The potential range of related income tax that may be incurred as a result of the repatriation is between zero and $51 million.

Deferred Income Taxes

We had gross deferred tax assets arising from temporary differences, net operating losses, and tax credit carryforwards of $265.2 million and $303.3 million as of March 27, 2005 and June 27, 2004, respectively. The gross deferred tax assets were offset by deferred tax liabilities of $26.3 million and a valuation allowance of $67.8 million, both as of March 27, 2005 and June 27, 2004. Net deferred tax assets decreased by $38.2 million from June 27, 2004 to March 27, 2005 due to the utilization of net operating loss tax assets against our tax profits. This utilization was partially offset by an increase to our deferred tax assets due to the recognition of $30.4 million in tax benefits related to the exercise of employee stock options during the current fiscal year. Our judgment is that the benefit of these tax deductions are probable to be realized in the current fiscal year thus decreasing the amount of net operating loss we had previously expected to utilize. This entry had the effect of increasing our deferred tax assets as well as additional paid-in capital. Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. We evaluate the realizability of the deferred tax assets quarterly and will continue to assess the need for additional or less valuation allowances, if any, in subsequent quarters.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain judgments, estimates and assumptions that could affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We based our estimates and assumptions on historical experience and on various other assumptions believed to be applicable, and evaluated them on an on-going basis to ensure they remained reasonable under current conditions. Actual results could differ significantly from those estimates.

A critical accounting policy is defined as one that has both a material impact on our financial condition and results of operations and requires us to make difficult, complex and/or subjective judgments, often as a result of the need to make estimates about matters that are inherently uncertain. We believe that the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

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

Inventory Valuation: Inventories are stated at the lower of cost or market using standard costs, which approximate actual costs on a first-in, first-out basis. We maintain a perpetual inventory system and continuously record the quantity on-hand and standard cost for each product, including purchased components, subassemblies and finished goods. We maintain the integrity of perpetual inventory records through periodic physical counts of quantities on hand. Finished goods are reported as inventories until the point of title transfer to the customer. Generally, title transfer is documented in the terms of sale. When the terms of sale do not specify, we assume title transfers when we complete physical transfer of the products to the freight carrier unless other customer practices prevail.

Standard costs are re-assessed at least annually and reflect achievable acquisition costs, generally the most recent vendor contract prices for purchased parts, currently obtainable assembly and test labor performance levels, and overhead for internally manufactured products. Manufacturing labor and overhead costs are attributed to individual product standard costs at a level planned to absorb spending at average utilization volumes. All intercompany profits related to the sales and purchases of inventory between our legal entities are eliminated from our condensed consolidated financial statements.

Management evaluates the need to record adjustments for impairment of inventory at least quarterly. Our policy is to assess the valuation of all inventories, including manufacturing raw materials, work-in-process, finished goods and spare parts in each reporting period. Obsolete inventory or inventory in excess of management's estimated usage requirements over the next 12 to 36 months is written down to its estimated market value, if less than cost. Inherent in the estimates of market value are management's forecasts related to our future manufacturing schedules, customer demand, technological and/or market obsolescence, general semiconductor market conditions, possible alternative uses and ultimate realization of excess inventory. If future customer demand or market conditions are less favorable than our projections, additional inventory write-downs may be required, and would be reflected in cost of sales in the period the revision is made.

Warranty: Typically, marketing and selling semiconductor capital equipment includes providing parts and service warranty to customers as part of the overall price of the system. We offer standard warranties for our systems that run generally for a period of 12 months from system acceptance, not to exceed 14 months from shipment of the system to the customer. When appropriate, we record a provision for estimated warranty expenses to cost of sales for each system upon revenue recognition. The amount recorded is based on an analysis of historical activity, which uses factors such as type of system, customer, geographic region, and any known factors such as tool reliability trends. All actual parts and labor costs incurred in subsequent periods are charged to those established reserves through the application of detailed project record keeping.

Actual warranty expenses are incurred on a system-by-system basis, and may differ from our original estimates. While we periodically monitor the performance and cost of warranty activities, if actual costs incurred are different than our estimates, we may recognize adjustments to provisions in the period in which those differences arise or are identified. Accordingly, actual costs that exceed the estimates are expensed as incurred, and at the same time, additional probable and estimable liabilities may be recorded.

We do not maintain general or unspecified reserves; all warranty reserves are related to specific systems. Historically, including the three and nine months ended March 27, 2005, all warranty obligations have been determined with reasonable estimates.

In addition to the provision of standard warranties, we offer customer-paid extended warranty services. Revenues for extended maintenance and warranty services with a fixed payment amount are recognized on a straight-line basis over the term of the contract. Related costs are recorded either as incurred or when related liabilities are determined to be probable and estimable.

Employee Stock Purchase Plan and Employee Stock Option Plans: We account for our employee stock purchase plan (ESPP) and stock option plans under the provisions of Accounting Principles Board (APB) Opinion No. 25 “Accounting For Stock Issued to Employees” (APB 25) and Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25” and make pro forma footnote disclosures as required by Statement of Financial Accounting Standards (SFAS) No. 148, “Accounting For Stock-Based Compensation — Transition and Disclosure”, which amends SFAS No. 123, “Accounting For Stock-Based Compensation”. Our ESPP is a non-compensatory plan, and our stock option plans are accounted for using the intrinsic value method under the provisions of APB 25. Please see Recent Accounting Pronouncements below regarding the provisions of Statement of Financial Accounting Standards No. 123(R) which will become effective during our quarter ending September 25, 2005.

Pro forma net income (loss) and pro forma net income (loss) per share disclosed in the footnotes to our condensed consolidated financial statements are estimated using a Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and which are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each option. We are currently evaluating all of the variables associated with the valuation of equity compensation including valuation model and volatility.

Deferred Income Taxes: Deferred income taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, then the previously provided valuation allowance would be reversed. Our current valuation allowance of $67.8 million relates to the tax benefit from the exercise of employee stock options and foreign tax credits. When stock option tax benefits are realized, the related deferred tax asset will reverse and a portion of the valuation allowance will also be reversed and credited to capital in excess of par value.

Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” and investments accounted for under the cost method or the equity method. In September 2004, the Financial Accounting Standards Board (FASB) issued a final FASB Staff Position, (FSP) EITF Issue 03-01-1, which indefinitely delays the effective date for the measurement and recognition guidance of EITF 03-01. We are currently evaluating the impact, if any, of adopting EITF 03-01.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs — An Amendment of ARB No. 43, Chapter 4,” which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). We are required to adopt SFAS No. 151 in fiscal year 2006 and its adoption is not expected to have a significant impact on our results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment.” This Statement is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation”, and supersedes Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees”, and its related implementation guidance. In March, 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No.

107 (SAB 107) which provides the Staff's views regarding interactions between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. SFAS No. 123(R) requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. This statement is effective for us for fiscal years beginning after June 15, 2005, with early adoption permitted. SFAS No. 123(R) will be effective for us beginning with the quarter ended September 25, 2005, and we have no plans for early adoption.

The effects of the adoption of SFAS No. 123(R) on our results of operations and financial position are dependent upon a number of factors, including the number of employee stock options outstanding and unvested, the number of stock-based awards which may be granted in the future, the life and vesting features of stock-based awards which may be granted in the future, the future market value and volatility of our stock, movements in the risk free rate of interest, award exercise and forfeiture patterns, and the valuation model used to estimate the fair value of each award. We are currently evaluating all of these variables, including expected volatility, in the design of our equity compensation program as well as the accounting requirements under SFAS No. 123(R) and SAB 107. Accordingly, it is not yet possible to reliably estimate the effect of the adoption of SFAS No. 123(R) on our results of operations and financial position. However, we believe that the quarterly expense will range from $4 million to $11 million, net of taxes.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 also eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We will apply its provisions prospectively upon adoption, and its adoption is not expected to have a significant impact on our results of operations or financial position.

LIQUIDITY AND CAPITAL RESOURCES

As of March 27, 2005, we had $838.8 million in cash, cash equivalents, short-term investments, and restricted cash compared with $541.9 million at June 27, 2004 as a direct result of our profitability and working capital management. During the nine months ended March 27, 2005, cash and cash equivalents increased by $273.1 million, including cash provided by operating activities of $292.0 million and cash provided by financing activities of $23.1 million, partially offset by cash used for investing activities of $46.4 million.

Cash Flows From Operating Activities

Net cash provided by operating activities of $292.0 million during the nine months ended March 27, 2005, consisted of (in thousands):

Net income	$232,815
Non-cash charges (restructuring, depreciation and amortization)	33,413
Income tax benefit of stock option exercises	30,353
Net decrease in deferred income taxes	38,165
Change in other working capital accounts	(45,698)
Other	2,998
	$292,046

Significant changes in assets and liabilities during the nine months ended March 27, 2005 include an increase of $11.6 million in net accounts receivable reflecting increased sales volumes. To accelerate the collection of cash, we continue to have an agreement with a financial institution that enables us to sell certain U.S. dollar-denominated accounts receivable. The amount of accounts receivable that were sold during the quarter ended March 27, 2005 and remained uncollected as of March 27, 2005 was $35.6 million. Trade payables decreased by $29.2 million due to reduced purchasing activity during the period. Deferred profit decreased by $21.8 million. Accrued liabilities increased by $27.4 million primarily due to increased warranty reserves on higher sales volumes, increased variable-based compensation accruals, and an increase in restructuring reserves related to additional liabilities recorded for facilities included in prior restructuring plans.

Cash Flows from Investing Activities

Net cash used for investing activities during the nine months ended March 27, 2005 was $46.4 million and consisted of net purchases of $27.8 million of short-term investments in addition to net capital expenditures of $18.6 million which consisted primarily of engineering equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities during the nine months ended March 27, 2005 was $23.1 million including net proceeds of $90.8 million from the issuance of our common stock from stock option exercises and employee stock purchase plan purchases, partially offset by stock repurchases of $67.8 million.

In October, 2004, we announced that our Board of Directors had authorized the repurchase of up to $250 million of our common stock from the public market or in private purchases. The terms of the repurchase program will permit us to repurchase shares through September 30, 2007. During the three months ended March 27, 2005 we repurchased 2,250,000 shares of common stock at a total price of $67.8 million. As of March 27, 2005, the total amount available for repurchase under this program was $182.2 million. We expect to continue to purchase shares under this program.

Given the cyclical nature of the semiconductor equipment industry, we believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in R&D and capital infrastructure. Based upon our current business outlook, our levels of cash, cash equivalents, and short-term investments at March 27, 2005 are expected to be sufficient to support our presently anticipated levels of operations, investments, and capital expenditures, through at least the next 12 months.

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

Commitments

We have certain obligations, some of which are recorded on our balance sheet and some which are not, to make future payments under various contracts. Obligations are recorded on our balance sheet in accordance with U.S. generally accepted accounting principles. The obligations recorded on our consolidated balance sheet include restructuring liabilities which are outlined in the following table and are discussed below. Our off-balance sheet arrangements include contractual relationships and are presented as operating leases and purchase obligations in the table below. Our contractual cash obligations and commitments relating to these agreements, and our guarantees are included in the following table:

	Restructuring Liabilities	Operating Leases	Purchase Obligations	Total
		(in thousands)		
Payments due by period:				
Less than 1 year	$ 21,675	$ 15,284	$ 105,691	$142,650
1-3 years	2,627	18,241	56,746	$ 77,614
4-5 years	44	74,938	29,988	$104,970
Over 5 years	—	1,027	1,094	$ 2,121
Total	$ 24,346	$109,490	$ 193,519	$327,355

Restructuring Liabilities

Our total restructuring reserves as of March 27, 2005 were $24.3 million, including $0.2 million of severance and benefits-related costs and $24.1 million related to lease payments and minimum residual value guarantees on vacated buildings. Through cash generated from operations, we expect $21.7 million to be paid over the next twelve months and $2.6 million to be paid between fiscal 2006 and fiscal 2010. Please see the related discussion in “Restructuring Activities” within “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Operating Leases

We lease most of our administrative, R&D and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases, which expire at various dates through 2021. Certain of our facility leases for buildings located at our Fremont, California headquarters and certain other facility leases provide us with an option to extend the leases for additional periods. Certain of our facility leases provide for periodic rent increases based on the general rate of inflation.

In March and June of 2003, lease agreements relating to certain properties at our Fremont, California campus were transferred to a new lessor, amended, combined and restated. As part of the lease agreements, we have the option to purchase the buildings at any time for a total purchase price for all properties related to these leases of approximately $112.5 million. In addition, we are required to guarantee the lessors a residual value on the properties of up to $98.7 million at the end of the lease terms in fiscal 2008 (in the case that the leases are not renewed, we do not exercise the purchase options, the lessor sells the properties and the sale price is less than the lessor’s costs). At the time of the June amendment, one of the leased property’s current fair value was less than its original cost by approximately $1.0 million. The leased property was a building that had been part of our past restructuring activities, and the non-cash loss was recorded as a restructuring charge during fiscal 2003. As a result, we recorded a $1.0 million liability for the loss on the leased property. We maintain cash collateral of $112.5 million as part of the lease agreements as of March 27, 2005 in separate, specified interest-bearing accounts which is recorded as restricted cash in our consolidated balance sheet. The lessor under the lease agreements is a substantive independent leasing company that does not have the characteristics of a variable interest entity (VIE) as defined by FASB Interpretation 46, “Consolidation of Variable Interest Entities”, and is therefore not consolidated by us. The residual value guarantees are included in the table above. During the quarter ended March 27, 2005, we recognized additional liabilities of $14.2 million in connection with our guaranteed residual value obligation on certain leased facilities included in prior restructuring plans. During the March 2005 quarter, we contacted the lessor regarding the marketing of these facilities for sale. We concluded, under the provisions of SFAS No. 5, “Accounting for Contingencies,” that a liability had been incurred. This transaction resulted in an increase of $14.2 million to our restructuring liabilities, included in the table above.

The remaining balance primarily relates to non-cancelable facility-related operating leases expiring at various dates through 2021.

Purchase Obligations

Purchase obligations consist of significant contractual obligations either on an annual basis or over multi-year periods related to our outsourcing activities or other material commitments, including vendor-consigned inventories. We continue to enter into new agreements and maintain existing agreements to outsource certain activities, including elements of our manufacturing, warehousing, logistics, facilities maintenance, certain information technology functions, and certain transactional general and administrative functions. The contractual cash obligations and commitments table presented above contains our minimum obligations at March 27, 2005 under these arrangements and others. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to minimum spending commitments, certain of these agreements provide for potential cancellation charges.

Consignment inventories, which are owned by vendors but located in our discrete storage locations and warehouses, are not reported as Lam inventory until title is transferred to us or our purchase obligation is determined. At March 27, 2005, vendor owned inventories held at our locations and not reported as Lam inventory were approximately $17.0 million.

Risk Factors

In addition to the other information in this Form 10-Q, the following risk factors should be carefully considered in evaluating the Company and its business because such factors may significantly impact our business, operating results, and financial condition. As a result of these risk factors, as well as other risks discussed in our other SEC filings, our actual results could differ materially from those projected in any forward-looking statements. No priority or significance is intended, or should be attached, to the order in which the risk factors appear.

Our Quarterly Revenues and Operating Results are Unpredictable

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

- economic conditions in the electronics and semiconductor industry generally and the equipment industry specifically;
- the extent that customers use our products and services in their business;
- timing of customer acceptances of equipment;
- the size and timing of orders from customers;
- customer cancellations or delays in our shipments, installations, and/or acceptances;
- changes in average selling prices and product mix;
- our ability in a timely manner to develop, introduce and market new, enhanced and competitive products;
- our competitors' introduction of new products;
- legal or technical challenges to our products and technology;
- changes in import/export regulations;
- transportation, communication, demand, information technology or supply disruptions based on factors outside our control such as acts of God, wars, terrorist activities and natural disasters;
- legislative, tax, accounting, or regulatory changes or changes in their interpretation;
- procurement shortages;
- manufacturing difficulties;
- the failure of our suppliers or outsource providers to perform their obligations in a manner consistent with our expectations;
- new or modified accounting regulations; and
- exchange rate fluctuations.

Further, because a significant amount of our R&D and administrative operations and capacity is located at our Fremont, California campus, natural, physical, logistical or other events or disruptions affecting these facilities (including labor disruptions, earthquakes and power failures) could adversely impact our financial performance.

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

System sales constitute a significant portion of our total revenue. Our systems can typically range in price from approximately $0.4 million to $5.0 million per unit, and our revenues in any given quarter are dependent upon the acceptance of a rather limited number of such systems. As a result, the inability to declare revenue on even a few systems can cause a significant adverse impact on our revenues for that quarter.

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

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

The Semiconductor Equipment Industry Is Volatile and Reduced Product Demand Has a Negative Impact on Shipments

Our business depends on the capital equipment expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits and products using integrated circuits. The semiconductor industry is cyclical in nature and historically experiences periodic downturns. Business conditions historically have changed rapidly and unpredictably.

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

We Depend on New Products and Processes for Our Success. Consequently, We are Subject to Risks Associated with Rapid Technological Change

Rapid technological changes in semiconductor manufacturing processes subject us to increased pressure to develop technological advances enabling such processes. We believe that our future success depends in part upon our ability to develop and offer new products with improved capabilities and to continue to enhance our existing products. If new products have reliability or quality problems, our performance may be impacted by reduced orders, higher manufacturing costs, delays in acceptance of and payment for new products, and additional service and warranty expenses. We may be unable to develop and manufacture new products successfully, or new products that we introduce may fail in the marketplace. Our failure to complete commercialization of these new products in a timely manner could result in unanticipated costs and inventory obsolescence, which would adversely affect our financial results.

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

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

We derive a substantial percentage of our revenues from a limited number of products, and we expect these products to continue to account for a large percentage of our revenues in the near term. Continued market acceptance of our primary products is, therefore, critical to our future success. Our business, operating results, financial condition, and cash flows could therefore be adversely affected by:

- a decline in demand for even a limited number of our products;
- a failure to achieve continued market acceptance of our key products;
- an improved version of products being offered by a competitor in the market we participate in;
- technological change that we are unable to address with our products; and
- a failure to release new enhanced versions of our products on a timely basis.

We Have a Limited Number of Key Customers

Sales to a limited number of large customers constitute a significant portion of our overall revenue. As a result, the actions of even one customer may subject us to revenue swings that are difficult to predict. Similarly, significant portions of our credit risk may, at any given time, be concentrated among a limited number of customers, so that the failure of even one of these key customers to pay its obligations to us could significantly impact our financial results.

We Are Dependent Upon a Limited Number of Key Suppliers

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

Our Outsource Providers May Fail to Perform as We Expect

Outsource providers have played and will play key roles in our manufacturing operations and in many of our transactional and administrative functions. Although we aim at selecting reputable providers and secure their performance on terms documented in written contracts, it is possible that one or more of these providers could fail to perform as we expect and such failure could have an adverse impact on our business. In addition, the expansive role of outsource providers has required and will continue to require us to implement changes to our existing operations and to adopt new procedures to deal with and manage the performance of these outsource providers. Any delay or failure in the implementation of our operational changes and new procedures could adversely affect our customer relationships and/or have a negative effect on our operating results.

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

Semiconductor manufacturers must make a substantial investment to qualify and integrate wafer processing equipment into a semiconductor production line. We believe that once a semiconductor manufacturer selects a particular supplier's processing equipment, the manufacturer generally relies upon that equipment for that specific production line application. Accordingly, we expect it to be more difficult to sell to a given customer if that customer initially selects a competitor's equipment.

We Are Subject to Risks Associated with Our Competitors' Strategic Relationships and Their Introduction of New Products and We May Lack the Financial Resources or Technological Capabilities of Certain of Our Competitors Needed to Capture Increased Market Share

We expect to face significant competition from multiple current and future competitors. We believe that other companies are developing systems and products that are competitive to ours and are planning to introduce new products, which may affect our ability to sell our existing products. We face a greater risk if our competitors enter into strategic relationships with leading semiconductor manufacturers covering products similar to those we sell or may develop, as this could adversely affect our ability to sell products to those manufacturers.

We believe that to remain competitive we 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 our competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing, and customer service and support resources than we do and therefore have the potential to increasingly dominate the semiconductor equipment industry. These competitors may deeply discount or give away products similar to those that we sell, challenging or even exceeding our ability to make similar accommodations and threatening our ability to sell those products. For these reasons, we may fail to continue to compete successfully worldwide.

In addition, our competitors may provide innovative technology that may have performance advantages over systems we currently, or expect to, offer. They may be able to develop products comparable or superior to those we offer or may adapt more quickly to new technologies or evolving customer requirements. In particular, while we currently are developing additional product enhancements that we believe will address future customer requirements, we may fail in a timely manner to complete the development or introduction of these additional product enhancements successfully, or these product enhancements may not achieve market acceptance or be competitive. Accordingly, we may be unable to continue to compete in our markets, competition may intensify, or future competition may have a material adverse effect on our revenues, operating results, financial condition, and/or cash flows.

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

Non-U.S. sales, as a percentage of total revenue, accounted for approximately 82% in fiscal 2004, 72% in fiscal 2003 and 71% in fiscal 2002. We expect that international sales will continue to account for a significant portion of our total revenue in future years. We are subject to various challenges related to the management of global operations, and international sales are subject to risks including, but not limited to:

- trade balance issues;
- regional economic and political conditions;
- changes in currency controls;
- differences in the enforcement of intellectual property and contract rights in varying jurisdictions;
- ability to develop relationships with local suppliers;
- compliance with U.S. and international laws and regulations, including U.S. export restrictions;
- fluctuations in interest and currency exchange rates; and
- the need for technical support resources in different locations.

Our international sales depend, in large part, on our ability to obtain export licenses from the U.S. Government. Our failure or inability to obtain such licenses would substantially limit our markets and severely restrict our revenues. Many of the challenges noted above are applicable in China, which is a fast developing market for the semiconductor equipment industry and therefore an area of potential significant growth for our business. As the business volume between China and the rest of the world grows, there is inherent risk, based on the complex relationships between China, Taiwan and the United States, that political and diplomatic influences might lead to trade disruptions which would adversely affect our business with China and/or Taiwan and perhaps the entire Asia-Pacific region. A significant trade disruption in these areas could have a material, adverse impact on our future revenue and profits.

We currently enter into foreign currency forward contracts to minimize the short-term impact of exchange rate fluctuations on Japanese Yen-denominated assets and will continue to enter into hedging transactions for the purposes outlined in the foreseeable future.

Our financial results may be adversely impacted by higher than expected tax rates or exposure to additional income tax liabilities

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. We are subject to income taxes in both the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. Our effective tax rate could be adversely affected by changes in the split of earnings between countries with differing statutory tax rates, in the valuation of deferred tax assets, in tax laws or by material audit assessments, which could affect our profitability. In particular, the carrying value of deferred tax assets, which are predominately in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability. Further, if we elect to repatriate cash held outside the United States pursuant to the American Jobs Creation Act of 2004, our tax rate may increase even if by a lesser amount than without such legislation.

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

We are subject to a variety of governmental regulations related to the discharge or disposal of toxic, volatile or otherwise hazardous chemicals. We believe that we are in general compliance with these regulations and that we have obtained (or will obtain or are otherwise addressing) all necessary environmental permits to conduct our business. These permits generally relate to the disposal of hazardous wastes. Nevertheless, the failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, cessation of our operations or reduction in our customers' acceptance of our products. These regulations could require us to alter our current operations, to acquire significant equipment or to incur substantial other expenses to comply with environmental regulations. Our failure to control the use, sale, transport or disposal of hazardous substances could subject us to future liabilities.

If We Are Unable to Adjust the Scale of Our Business in Response to Rapid Changes in Demand in the Semiconductor Equipment Industry, Our Operating Results and Our Ability to Compete Successfully May Be Impaired

The business cycle in the semiconductor equipment industry is characterized by frequent periods of rapid change in demand that challenge our management to adjust spending on operating activities. During periods of rapid growth or decline in demand for our products and services, we face significant challenges in maintaining adequate financial and business controls, management processes, information systems and procedures and in training, managing, and appropriately sizing our work force and other components of our business on a timely basis. Our success will depend, to a significant extent, on the ability of our executive officers and other members of our senior management to identify and respond to these challenges effectively. If we do not adequately meet these challenges, our gross margins and earnings may be impaired during periods of demand decline, and we may lack the infrastructure and resources to scale up our business to meet customer expectations and compete successfully during periods of demand growth.

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

An important element of our management strategy is to review acquisition prospects that would complement our existing products, augment our market coverage and distribution ability, or enhance our technological capabilities. As a result, we may make acquisitions of complementary companies, products or technologies, or we may reduce or dispose of certain product lines or technologies, which no longer fit our long-term strategies. Managing an acquired business, disposing of product technologies or reducing personnel entails numerous operational and financial risks, including difficulties in assimilating acquired operations and new personnel or separating existing business or product groups, diversion of management's attention away from other business concerns, amortization of acquired intangible assets and potential loss of key employees or customers of acquired or disposed operations among others. There can be no assurance that we will be able to achieve and manage successfully any such integration of potential acquisitions, disposition of product lines or technologies, or reduction in personnel or that our management, personnel, or systems will be adequate to support continued operations. Any such inabilities or inadequacies could have a material adverse effect on our business, operating results, financial condition, and cash flows.

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

The Market for Our Common Stock is Extremely Volatile, Which May Affect Our Ability to Raise Capital or Make Acquisitions

The market price for our Common Stock is extremely volatile and has fluctuated significantly over the past years. The trading price of our Common Stock could continue to be highly volatile and fluctuate widely in response to factors, including but not limited to the following:

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

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

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

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

The Potential Anti-Takeover Effects of Our Certificate of Incorporation May Inhibit a Change of Control Desired by Some of Our Stockholders

Our Certificate of Incorporation authorizes issuance of 5,000,000 shares of undesignated Preferred Stock. Our Board of Directors, without further stockholder approval, may issue this Preferred Stock on such terms as the Board of Directors may determine, which also could have the effect of delaying or preventing a change in control of Lam. The issuance of Preferred Stock could also adversely affect the voting power of the holders of our Common Stock, including causing the loss of voting control. Moreover, Section 203 of the Delaware General Corporation Law restricts certain business combinations with "interested stockholders", as defined by that statute. Such factors might deter certain acquirers from making takeover proposals or tender offers, even if such takeover proposals or control changes could improve our short-term stock price.

Intellectual Property and Other Claims Against Us Can Be Costly and Could Result in the Loss of Significant Rights Which Are Necessary to Our Continued Business and Profitability

Third parties may assert infringement, unfair competition or other claims against us. From time to time, other parties send us notices alleging that our products infringe their patent or other intellectual property rights. In addition, our Bylaws and indemnity obligations provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from their service to Lam. In such cases, it is our policy either to defend the claims or to negotiate licenses or other settlements on commercially reasonable terms. However, we may be unable in the future to negotiate necessary licenses or reach agreement on other settlements on commercially reasonable terms, or at all, and any litigation resulting from these claims by other parties may materially adversely affect our business and financial results.

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

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

Compliance with Internal Control Attestation and Independent Registered Public Accounting Firm Independence

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required, beginning with our fiscal year ending June 26, 2005, to include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of fiscal 2005. Furthermore, our independent registered public accounting firm (Firm) will be required to attest to whether our assessment of the effectiveness of our internal control over financial reporting is fairly stated in all material respects and separately report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of June 26, 2005. We have not yet completed our assessment of the effectiveness of our internal control. If we fail to timely complete this assessment, or if our independent registered public accounting firm cannot timely attest to our assessment, we could be subject to regulatory sanctions and a loss of public confidence in our internal control. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

Our independent registered public accounting firm communicates with us at least annually regarding any relationships between the Firm and the Company that, in the Firm's professional judgment, might have a bearing on the Firm's independence with respect to the Company. If, for whatever reason, our independent registered public accounting firm finds that it cannot confirm that it is independent of the Company based on existing securities laws and registered public accounting firm independence standards, we could experience delays or other failures to meet our regulatory reporting obligations.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

For financial market risks related to changes in interest rates and foreign currency exchange rates, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk", in our Annual Report on Form 10-K for the year ended June 27, 2004.

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and synthetic leases. We maintain a conservative investment policy, which focuses on the safety and preservation of our invested funds by limiting default risk, market risk, and reinvestment risk. We mitigate default risk by investing in high credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to achieve portfolio liquidity and maintain a prudent amount of diversification.

ITEM 4. Controls and Procedures

As required by Exchange Act Rule 13a-15(b), as of the close of our quarter ended March 27, 2005, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chairman and Chief Executive Officer along with our Chief Financial Officer, concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and to correct any material deficiencies that we may discover. Our goal is to ensure that our senior management has timely access to material information that could affect our business. While we believe the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to modify our disclosure controls and procedures. The effectiveness of controls cannot be absolute because the cost to design and implement a control to identify errors or mitigate the risk of errors occurring should not outweigh the potential loss caused by the errors that would likely be detected by the control. Moreover, we believe that disclosure controls and procedures cannot be guaranteed to be 100% effective all of the time. Accordingly, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

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

In October, 2004, we announced that our Board of Directors had authorized the repurchase of up to $250 million of Company common stock from the public market or in private purchases. The terms of the repurchase program permit us to repurchase shares through September 30, 2007. We plan to continue to execute the program. Share repurchases for the nine months ended March 27, 2005 were as follows:

Period	Total Number of Shares Purchased	Total Cost of Repurchase	Maximum Amount of $'s that May Yet Be Purchased Under the Plan
		(in thousands)	
Quarter Ending December 26, 2004	—	$ —	$ 250,000
Quarter Ending March 27, 2005	2,250	67,793	$ 182,207
Total	2,250	$ 67,793	

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information

As noted in Note 12 – "Restructuring Activities" in Notes to Condensed Consolidated Financial Statements as well as in "Restructuring Activities" within Management's Discussion and Analysis of Financial Condition and Results of Operations, during the quarter ended March 27, 2005, we recognized additional liabilities of $14.2 million in connection with our guaranteed residual value obligation on certain leased facilities included in prior restructuring plans. During the March 2005 quarter, we contacted the lessor regarding the marketing of these facilities for sale. We concluded, under the provisions of SFAS No. 5, "Accounting for Contingencies", a liability had been incurred. This transaction resulted in an increase of $10.2 million and $4.0 million to our Fiscal 2004 and Fiscal 2002 restructuring plans accruals, respectively. These amounts are included in accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheet as we expect payment to occur within the next twelve months.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11.1	Third Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement between Lam Research Corporation, Lam Research International SARL and ABN Amro Bank N.V., dated March 22, 2005
11.2	Third Amended and Restated Guaranty between Lam Research Corporation and ABN Amro Bank N.V., dated March 22, 2005
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
32.1	Section 1350 Certification (Principal Executive Officer)
32.2	Section 1350 Certification (Principal Financial Officer)

(b) Reports on Form 8-K

On February 23, 2005, Lam Research Corporation (the Company) filed a current report on Form 8-K announcing the adoption of executive incentive plan performance goals for the first half of calendar year 2005 for its named officers other than the Chief Executive Officer and Chief Operating Officer. The Company also announced that its Board of Directors unanimously voted to amend and terminate its Stockholder Rights Plan. Additionally, the Company announced that its Board of Directors unanimously voted to amend the Company’s bylaws including an increase of the Board size to seven. The Company also announced that its Board of Directors had appointed Dr. Seiichi Watanabe to fill the newly-created directorship on the Board.

LAM RESEARCH CORPORATION

SIGNATURES

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

Date: May 5, 2005

LAM RESEARCH CORPORATION

(Registrant)
/s/ Martin B. Anstice
Martin B. Anstice
Vice President, Finance,
Chief Financial Officer and Chief Accounting Officer

EXHIBIT INDEX

Exhibit Number	Description
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EXHIBIT 11.1

THIRD AMENDED AND RESTATED UNCOMMITTED INSURED TRADE
RECEIVABLES PURCHASE AGREEMENT

THIS THIRD AMENDED AND RESTATED UNCOMMITTED INSURED TRADE RECEIVABLES PURCHASE AGREEMENT (this "Agreement") is made as of March 22, 2005 by and among Lam Research Corporation, a Delaware corporation ("Lam"), Lam Research International SARL, a Swiss corporation ("LRI") and a subsidiary of Lam (Lam and LRI each a "Seller" and collectively, "Sellers") and ABN AMRO Bank N.V. ("Buyer").

RECITALS

A. Lam and Buyer have previously entered into that certain Second Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement dated as of March 21, 2003 (the "March Agreement"), pursuant to which Lam agreed to sell and Buyer agreed to buy, on an uncommitted basis, certain accounts receivable, subject to the terms and conditions of the March Agreement, as amended by (i) that certain Amendment to Second Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement dated as of September 24, 2003 (the "First Amendment") among Sellers and Buyer and (ii) that certain Second Amendment to Second Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement dated as of June 2, 2004 (the "Second Amendment") among Sellers and Buyer (the March Agreement, as amended by the First Amendment and the Second Amendment, the "Purchase Agreement").

B. Sellers and Buyer desire to amend and restate the Purchase Agreement on the terms set forth herein to reduce the amount of the receivables purchase facility to $50,000,000 and to make certain other changes, all as reflected herein. Subsequent to the Effective Date, the Purchase Agreement shall be amended and restated to read as set forth herein.

C. Sellers desire to sell certain of their accounts receivable from time to time, and Buyer is willing to purchase from Sellers on an uncommitted basis such accounts receivable on the terms set forth herein.

D. Lam owns all of the issued and outstanding capital stock of LRI and desires to guarantee the obligations of LRI under this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the above Recitals, the mutual covenants herein contained, and the exchange of consideration provided hereinafter, the receipt and adequacy of which the parties hereby acknowledge, the parties hereto hereby agree as follows:

1. Sale and Purchase.

(a) Sale. Each Seller, from time to time during the period commencing on the Effective Date and terminating on the last day of the Purchase Period, may submit to Buyer a request at least three (3) Business Days preceding the proposed Purchase Date (each, a

“Request”) that it purchase from such Seller the Eligible Receivables described in the Request (or substitutions thereof as approved by Buyer on the Purchase Date). Subject to satisfaction of the conditions precedent set forth in subsection (b) of this section, Buyer may purchase, and assuming Buyer decides to purchase, such Seller shall sell, all of such Seller’s right, title and interest (but none of such Seller’s obligations) with respect to such Eligible Receivables as of the Purchase Date with respect to such Eligible Receivables (such Eligible Receivables sold under this Agreement shall be collectively referred to herein as the “Purchased Receivables”). Buyer shall not purchase Eligible Receivables that a Seller offers to the extent that the aggregate purchase price paid by Buyer for Purchased Receivables would exceed Fifty Million Dollars ($50,000,000) (the “Total Uncommitted Facility”). It is the parties’ intent that the sale and transfer hereunder be treated for all purposes as a true sale of the Purchased Receivables by the applicable Seller to Buyer. The purchase of Purchased Receivables shall be evidenced by an Instrument of Transfer and Assignment in substantially the form of Exhibit “A” attached hereto (each, an “Assignment”).

(b) Conditions Precedent to Execution. The obligation of Buyer to enter into this Agreement is subject to receipt by Buyer, on or prior to the Effective Date, of each item listed on Schedule 2 attached hereto as being deliverable on or prior to such date, each in form and substance satisfactory to Buyer.

(c) Conditions Precedent to Purchase of Receivables. Buyer shall not be required to purchase Eligible Receivables described in a Request (or substitutions thereof as approved by Buyer on the Purchase Date) unless on the Purchase Date therefor:

(i) Buyer has received an Assignment transferring such Purchased Receivables to Buyer on such Purchase Date duly executed by the applicable Seller, and the aggregate value of all such Purchased Receivables to be purchased by Buyer on such Purchase Date equals or exceeds $1,000,000;

(ii) Buyer has received the invoices for such Purchased Receivables and such other supporting documentation that Buyer has reasonably requested;

(iii) Such Seller’s representations, warranties and covenants herein are true and accurate in all material respects on such Purchase Date;

(iv) No Event of Repurchase exists on such Purchase Date with respect to which the applicable Seller has not repurchased, and paid the full purchase price for, the affected Purchased Receivables to the extent required to do so in accordance with Section 6;

(v) The applicable Seller shall have paid to Buyer in immediately available funds the aggregate Drawdown Fee payable in respect of such Purchased Receivables; and

(vi) in the case of any Request which includes Eligible Long-Term Receivables, the following additional conditions precedent shall apply:

(1) Buyer shall have obtained such internal credit approvals as may be necessary to permit Buyer to purchase such Eligible Long-Term Receivables, it being

acknowledged and agreed that (x) Buyer has neither sought nor obtained such approvals as of the date hereof and that, without limitation of the uncommitted nature of Buyer's obligations hereunder, there can be no assurances that such approvals, if sought, will be obtained, and (y) any such approval, if granted, may be conditioned upon payment by the applicable Seller of a structuring fee or other terms, all of which would be negotiated in good faith by the parties hereto at the time of such approval, and

(2) not more than one (1) Request in respect of Eligible Long-Term Receivables may be delivered hereunder.

(d) Purchase Price. The purchase price for Purchased Receivables (the "Purchase Price") purchased on a Purchase Date shall be the amount obtained by multiplying (i) 1.00 minus the Purchase Percentage applicable to such Purchased Receivables, expressed as a decimal and as determined in accordance with Exhibit "C", times (ii) the aggregate Net Invoice Amount of such Purchased Receivables. The Purchase Price, denominated in U.S. dollars, shall be wired on the Purchase Date to an account designated by the applicable Seller and maintained with Buyer or one of its affiliates.

(e) [Reserved.]

(f) No Recourse. Except as otherwise provided in Section 6, each purchase of the Purchased Receivables is made without recourse to Sellers and Sellers shall have no liability to Buyer for any Approved Customer's failure to pay any of its Purchased Receivables when it is due and payable under the terms of the applicable Receivables Documentation.

(g) Collection Expenses Account. Under the Purchase Agreement, Buyer established an interest-bearing account (the "Collection Expenses Account") into which it deposited funds equal to One-Hundredth of One Percent (0.01%) of the Net Invoice Amount of the Purchased Receivables acquired on each Purchase Date under the Purchase Agreement. Such funds were administered pursuant to requirements of the Purchase Agreement. On each Purchase Date under this Agreement, Buyer shall deposit into the Collection Expenses Account funds equal to One-Hundredth of One Percent (0.01%) of the Net Invoice Amount of the Purchased Receivables acquired on such Purchase Date. Each Seller, so long as it acts as the collection agent in accordance with Section 5, shall have the right to draw funds from the Collection Expenses Account from time to time to cover the Collection Expenses that it incurs as the collection agent. Upon Buyer's request, each Seller shall provide Buyer with written evidence of the Collection Expenses for which it has received reimbursement from the Collection Expenses Account. Upon Buyer's receipt of all payments due with respect to the Purchased Receivables purchased on a Purchase Date (the "Purchase Date Receivables"), whether through payments made by or on behalf of the Approved Customers and/or payments made under the Insurance Policy and payments made by the applicable Seller hereunder, such Seller shall be entitled to receive, as compensation for the collection agent services performed hereunder with respect to such Purchased Receivables, the Net Funds. "Net Funds" means, with respect to the Purchase Date Receivables for each Purchase Date, the amount determined by multiplying the aggregate amount deposited in the Collection Expenses Account as of the date that the Net Funds are being determined (the "Calculation Date") by a fraction, the numerator of which is the Net Invoice Amount of the Purchase Date Receivables and the denominator of which is the aggregate Net Invoice Amount of all the Purchased Receivables sold hereunder as of the Calculation Date. On the date that no further purchase transactions are authorized hereunder Sellers, as compensation for the collection agent services performed hereunder, shall be entitled to all funds remaining in the Collection Expenses Account.

(h) Rebate. Upon Buyer's receipt of all payments due with respect to the Purchased Receivables purchased on a Purchase Date, whether through payments made by or on behalf of the Approved Customers and/or payments made under the Insurance Policy and payments made by the applicable Seller hereunder, Buyer and such Seller shall determine the Average Collection Days for such Purchased Receivables. If the Average Collection Days in respect of such Purchased Receivables is less than (1) the number of days agreed to by Buyer and such Seller on or as of the relevant Purchase Date, in the case of any Eligible Long-Term Receivables, or (2) one hundred twenty (120) days in all other cases (such number of days with respect to any Purchased Receivables being referred to as the "Projected Collection Days" therefor), then Buyer shall pay to such Seller the amount equal to the sum obtained by multiplying (i) the Purchase Percentage in respect of such Purchased Receivables, as defined in Exhibit "C", times (ii) the Net Invoice Amount of the subject Purchased Receivables, times (iii) the difference between the Average Collection Days in respect of such Purchased Receivables and the Projected Collection Days in respect of such Purchased Receivables, and dividing that amount by the Projected Collection Days in respect of such Purchased Receivables. Buyer shall pay such rebate, if any, to the applicable Seller within five (5) Business Days after the end of each month for rebates calculated on the last Business Day of such prior month. Notwithstanding the foregoing, Buyer shall not be required to pay any rebate to either Seller in respect of any Purchased Receivables purchased on a Purchase Date unless all Purchased Receivables purchased on all prior Purchase Dates hereunder have also been paid in full as of the date such rebate is to be paid (whether through payments made by or on behalf of the Approved Customers, payments made under the Insurance Policy or payments made by Sellers hereunder).

2. Sellers' Representations and Warranties. Sellers each severally represent and warrant to Buyer as to itself on each Purchase Date that:

(a) Purchased Receivables. Exhibit "1" to each Assignment contains a true and correct list of the Approved Customers, the purchase order numbers, and the invoice numbers (the invoices and all documentation relating to the Purchased Receivables collectively the "Receivables Documentation"), and the Initial Payments in respect thereof which comprise the Purchased Receivables on such Purchase Date. Buyer has received true and correct copies of the Receivables Documentation relating to each of the Purchased Receivables referred to in clause (ii) of Section 1(c). None of the Purchased Receivables are currently evidenced by chattel paper or instruments. Each of the Purchased Receivables is in full force and effect and is the valid and binding obligation of the parties thereto, enforceable in accordance with its terms, and constitutes the applicable Approved Customer's legal, valid and binding obligation to pay to the applicable Seller the amount of the Purchased Receivables, subject, as to enforcement of such Approved Customer's payment obligation, to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws of general applicability relating to or affecting creditors' rights. Neither the applicable Seller nor any of the Approved Customers is in default in the performance of any of the provisions of the Receivables Documentation applicable to its transactions included within the Purchased Receivables. The applicable Seller has delivered to each Approved Customer all equipment and related materials and performed all services required to be so delivered or performed by the terms of the Receivables Documentation for its Purchased Receivables. The payments due with respect to each Purchased Receivable are not contingent upon such Seller's fulfillment of any obligation.

(b) The Assignment; No Offset; No Liens. When executed and delivered pursuant hereto, each Assignment will vest in Buyer all of the applicable Seller's right, title and interest (but none of such Seller's obligations) with respect to the Purchased Receivables covered thereby. The Purchased Receivables are not subject to any offset, counterclaim or other defense, whether arising out of the transactions contemplated by the Receivables Documentation or independently thereof. The applicable Seller is transferring the Purchased Receivables free and clear of all security interests, liens, charges or encumbrances and without any Disputes.

(c) Insurance Policy. The Insurance Policy is in full force and effect and each Purchased Receivable meets each requirement for an insured transaction thereunder. Each Seller has complied with all terms, provisions and obligations under the Insurance Policy, and (i) all premiums under the Insurance Policy which are due and payable on or before such Purchase Date have been fully paid and (ii) Buyer is entitled to the benefits as a loss payee under the Insurance Policy.

(d) Due Incorporation, Qualification, Etc. Each Seller (i) is a corporation duly organized, validly existing and in good standing under the laws of its state or other jurisdiction of incorporation; (ii) has the power and authority to own, lease and operate its properties and carry on its business as now conducted; and (iii) is duly qualified, licensed to do business and in good standing as a foreign corporation in each jurisdiction where the failure to be so qualified or licensed is reasonably likely to result in a Material Adverse Change.

(e) Authority. The execution, delivery and performance by each Seller of this Agreement and the consummation of the transactions contemplated thereby (i) are within the power of such Seller and (ii) have been duly authorized by all necessary actions on the part of such Seller.

(f) Compliance; No Default. This Agreement constitutes the binding agreement of each Seller, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and general principles of equity. Neither the execution of this Agreement, nor the consummation of the transactions contemplated hereby (including without limitation the sale of the Purchased Receivables and related assets, and the pledge thereof) conflicts with, or causes a default under, or results in the creation of any security interest pursuant to, any other agreement to which such Seller is a party or is subject; nor does it breach any judgment, decree, order or permit applicable to such Seller.

(g) Approvals. No consent, approval, order or authorization of, or registration, declaration or filing with, any governmental authority or other Person (including, without limitation, the shareholders of any Person) is required in connection with the execution and delivery of this Agreement and the performance and consummation of the transactions contemplated thereby, except such as have been made or obtained and are in full force and effect.

(h) Litigation. No actions (including, without limitation, derivative actions), suits, proceedings or investigations are pending or, to the knowledge of either Seller, threatened against either Seller at law or in equity in any court or before any other Governmental Authority which (i) is reasonably likely (alone or in the aggregate) to result in a Material Adverse Change (other than as disclosed in Lam's 10-K for the fiscal year ended June 27, 2004 or 10Q for the fiscal quarter ended December 26, 2004) or (ii) seeks to enjoin, either directly or indirectly, the execution, delivery or performance by either Seller of this Agreement or the transactions contemplated hereby.

(i) Accuracy of Information Furnished. Neither this Agreement nor any of the other certificates, statements or information furnished to Buyer by or on behalf of either Seller in connection with this Agreement or the transactions contemplated hereby 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.

(j) No Material Adverse Change. No event has occurred and no condition exists which has resulted, or is reasonably likely to result, in a Material Adverse Change.

(k) No Change of Control. No Change of Control has occurred.

3. Sellers' Covenants. Each Seller agrees during the term hereof to:

(a) Further Assistance. From time to time, upon Buyer's request, promptly and duly execute and deliver all such further documents and render all such assistance as Buyer requires to enable Buyer to obtain the full benefit of each Purchased Receivable;

(b) Perform Terms. Duly perform and comply with all terms under each contract relating to the Purchased Receivables and promptly inform Buyer of any breach or default by either Seller or any Approved Customer of any of the terms thereof;

(c) Not Adversely Affect Buyer's Rights. Refrain from any act or omission which might in any way prejudice or limit Buyer's rights under any of the Purchased Receivables, the Insurance Policy or this Agreement, or cause a Purchased Receivable to cease to satisfy each requirement of an insured transaction under the Insurance Policy, including extending the payment terms under any Purchased Receivables, unless approved in advance by both Buyer and the Insurer; not have the Approved Customer with respect to a Purchased Receivable become an affiliate or subsidiary of either Seller for purposes of the Insurance Policy;

(d) Insurance Policy. Maintain the Insurance Policy in full force and effect (and not amend or alter it without Buyer's prior written consent, given in its sole discretion) with an aggregate coverage amount of the dollar amount required from time to time in accordance with Exhibit "C", attached hereto, as amended on each Purchase Date; comply with all requirements thereunder, including paying of all premiums thereunder, and provide Buyer promptly upon receipt copies of all notices (including all notices of any change in the terms or conditions) received from the Insurer; upon Buyer's demand, reimburse Buyer for all costs it is required to pay pursuant to the Insurance Policy and indemnify and hold harmless Buyer against all costs it incurs in respect of the Insurance Policy, including premiums paid by Buyer, and credit insurance deductibles and retentions provided for under the Insurance Policy; reimburse Buyer for the co-insurance portion of the Purchased Receivables and the deductible amount for claims, if any, under the Insurance Policy;

(e) File Insurance Claims. In the event of any Approved Customer's non-payment of its Purchased Receivable, immediately upon the expiration of the Waiting Period file a claim for reimbursement under the Insurance Policy, and concurrently deliver to Buyer a copy of such notice of claim and otherwise take all other actions reasonably requested by Buyer with respect to enforcement of such claim; and

(f) Receivables and Related Reports. Deliver to Buyer no later than the twentieth day of each month, a report by Sellers summarizing the following: (i) as of the last day of the previous month, the aging of the Purchased Receivables; (ii) as of the last day of the previous month, a list of all Defaulted Receivables and Delinquent Receivables, and (iii) such other information in summary form as Buyer requires, as well as a certification as to each Seller's compliance with all terms and provisions contained herein.

4. Indemnification.

(a) Tax Indemnification. Each Seller severally shall pay, and protect, indemnify, defend and hold harmless Buyer and its directors, officers, employees, agents and advisors ("Indemnitees") from and against, any taxes that may at any time be asserted in respect of the purchase transactions with such Seller (including any withholding, sales, occupational, excise, gross receipts, general corporation, personal property, privilege or license taxes, but not including taxes imposed upon Buyer with respect to its income arising out of the purchase transactions) and costs, expenses and reasonable counsel fees in defending against the same, whether arising by reason of the acts to be performed by such Seller hereunder or otherwise arising with respect to such Seller.

(b) General Indemnification. Each Seller severally shall pay, and protect, indemnify, defend and hold Buyer and the other Indemnitees harmless from and against any and all liabilities, losses, damages or expenses of any kind or nature and from any suits, claims or demands (including in respect of or for reasonable attorney's fees and other expenses) arising on account of or in connection with any matter or thing or action or failure to act by Indemnitees, or any of them, arising out of or relating to this Agreement, the Purchased Receivables (or related assets), or any transaction contemplated hereby, in each case relating to or arising out of such Seller's actions, inaction, representations, warranties, covenants, Purchased Receivables or otherwise attributable to such Seller, including without limitation any liability to any third party who may, for any reason, be entitled to receive the purchase price of any Purchased Receivable, in whole or in part, except to the extent such liability arises from the willful misconduct or gross negligence of such Indemnitee.

5. Sellers as Collection Agents.

(a) Appointment. Buyer hereby appoints each Seller, and each Seller accepts such appointment, as Buyer's collection agent with respect to collection and administration of the Purchased Receivables. As collection agent, each Seller shall receive all amounts owing on the Purchased Receivables from the Approved Customers thereunder as are paid to such Seller, for Buyer's benefit. Such funds shall be Buyer's exclusive property, and such Seller, upon receiving such funds, shall promptly place them in a segregated account as designated on its books and records, whereupon such funds shall be held in trust for Buyer's exclusive benefit. Each Seller shall not, directly or indirectly, utilize any of such funds for its own purposes or commingle, other than in such Seller's lockbox or other account for the period from collection until weekly remittance to Buyer in accordance with subsection (e) below, any of such funds with such Seller's funds, and shall not have any right to pledge any of such funds as collateral for any obligations of such Seller or any other party.

(b) Disputes. So long as either Seller is collection agent hereunder, it will promptly notify Buyer of, and promptly settle, all Disputes. The fees and expenses that such Seller incurs in handling Disputes, including attorneys' fees, shall constitute Collection Expenses. However, if (i) such Seller does not settle a Dispute during the applicable Waiting Period or within such shorter period as Buyer determines, in its sole discretion, and (ii) an Event of Repurchase has occurred with respect to the Purchased Receivable which is the subject of such Dispute and such Seller has not made the full payments required with respect to such Event of Repurchase in accordance with Section 6, then Buyer may settle, compromise or litigate such Dispute in Buyer's or such Seller's name, upon such terms as Buyer, in its sole discretion, deems advisable and for Buyer's account and risk.

(c) Removal.

(i) Procedure. Each Seller may resign from the performance of all its functions and duties hereunder as collection agent at any time by giving Buyer at least five (5) Business Days' prior written notice. Such resignation shall take effect upon the successor collection agent's acceptance of its appointment by Buyer. Upon the occurrence and during the continuation of an Event of Repurchase or a Prohibited Indebtedness Default with respect to a Seller, Buyer may immediately remove such Seller as collection agent hereunder, which removal shall take effect on the date specified in Buyer's notice; provided, however, that Buyer shall have the right to remove LRI as a collection agent if Buyer has removed LAM as a collection agent pursuant to the provisions of this Section 5(c)(i).

(ii) Effect. On the date that any Seller's duties as collection agent are terminated in accordance with subsection (c)(i) of this section, such Seller shall receive, from the Collection Expenses Account, the sum of (A) the amount equal to all Collection Expenses that such Seller has incurred through such date, but for which it has not previously been reimbursed, and (B) the amount determined by multiplying the funds remaining in the Collection Expenses Account after such final Collection Expenses reimbursement by a fraction, the numerator of which is the aggregate dollar value of the Purchased Receivables of such Seller for which payment has been received as of such date, and the denominator of which is one hundred percent (100%) of the invoice amount of all the Purchased Receivables of such Seller as of the date that Buyer purchased them in accordance with Section 1(a).

(d) Collection Expenses. Each Seller, in accordance with Section 1(g), shall be reimbursed from the Collection Expenses Account for all Collection Expenses that it incurs in performing its duties as collection agent hereunder. If the Collection Expenses exceed the amount deposited in the Collection Expenses Account, such Seller shall be solely responsible for such excess Collection Expenses and shall not have any right to seek reimbursement thereof from Buyer.

(e) Payment. Until Buyer has been paid all amounts to which it is entitled as to any Purchased Receivable, each Seller shall (i) hold in trust for Buyer and turn over to Buyer upon receipt all payments made to such Seller with respect to such Purchased Receivable and (ii) turn over to Buyer upon receipt all instruments, chattel paper and other proceeds of such Purchased Receivable; provided, however, that unless an Event of Repurchase has occurred, such Seller may remit to Buyer amounts received by Seller and due to Buyer on the last Business Day of each week (each, a "Settlement Date"). On each Settlement Date, Sellers shall deliver to Buyer a report, in form and substance acceptable to Buyer, of the account activity (including dates and amounts of payments) and changes in account status for each Purchased Receivable. Each Seller shall pay all amounts due to Buyer in immediately available funds In the event either Seller shall default with respect to any of its payment obligations under this Agreement, such Seller shall pay interest on such unpaid amount at a rate per annum equal to the Prime Rate plus two percent (2%), until such obligations are paid in full.

(f) Notice. So long as either Seller is acting as Buyer's collection agent, it shall give Buyer prompt notice of the occurrence of any circumstance(s) that reasonably could be expected to result in a Material Adverse Change or adversely affect such Seller's ability to perform its obligations hereunder.

(g) Audit. So long as either Seller is acting as Buyer's collection agent and for the one hundred eighty (180) day period commencing on termination of such Seller's collection agent responsibilities, Buyer shall have a right to audit such Seller's books for an accounting of the proceeds of the Purchased Receivables.

6. Events of Repurchase. If any of the following events (each an "Event of Repurchase") occurs with respect to a Seller and is continuing:

(a) any representation or warranty by such Seller hereunder with respect to (i) any of the Purchased Receivables or (ii) the Insurance Policy, is incorrect in any material respect when made or deemed made and shall have an adverse effect on the ability to collect such Purchased Receivables;

(b) such Seller fails to perform or observe any other term, covenant or agreement contained herein with respect to any of the Purchased Receivables or the Insurance Policy and such failure shall have an adverse effect on the ability to collect such Purchased Receivables, whether from the applicable Approved Customers, the Insurer or otherwise;

(c) the amount payable with respect to a Purchased Receivable of such Seller is reduced as a result of any discount, adjustment, offset, counterclaim, warranty issue or refusal of an Approved Customer to pay due to lack of performance of such Seller or of the product sold or other act or omission by such Seller or its authorized agents (other than a discount or adjustment granted with Buyer's written approval);

(d) Buyer does not receive all amounts owing with respect to a Purchased Receivable of such Seller within one hundred twenty (120) days of the Purchase Date therefor (other than in the case of any Eligible Long-Term Receivables, where payment must be received within a time period to be agreed upon by Buyer and the applicable Seller on or about the relevant Purchase Date, if any); or

(e) the Insurance Policy is cancelled, denied renewal or expires;

then, the applicable Seller shall, at the time, in the manner and otherwise as hereinafter set forth, repurchase and pay for the Purchased Receivables then outstanding affected by such Event of Repurchase at Buyer's option and demand, to the extent that Buyer is not entitled to receive payment with respect to such Purchased Receivables under, and in accordance with the claims procedure set forth in, the Insurance Policy; provided, however, that the applicable Seller shall not be obligated to repurchase Purchased Receivables under clause (d) to the extent that the aggregate repurchase price for Purchased Receivables repurchased pursuant to such clause would exceed the then Repurchase Limit, as defined in Exhibit "C", and in any case in which such non-payment of Purchase Receivables exceeds the Repurchase Limit, then Buyer, in its sole discretion, shall determine which Purchased Receivables such Seller repurchases. The repurchase price for a Purchased Receivable shall be the amount equal to the unpaid invoiced amount thereof. The repurchase price of a Purchased Receivable repurchased by a Seller pursuant to this section shall be paid to Buyer in immediately available funds without recourse to or warranty by Buyer.

7. Notices. Unless otherwise provided herein, all communications by any party relating hereto or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by facsimile (with confirmed receipt) to either Seller or Buyer, as the case may be, at its address set forth below:

If to Sellers: Lam:

Lam Research Corporation
4650 Cushing Parkway
Fremont, CA 94538-6517
Attn: Roch LeBlanc
Telephone: (510) 572-3547
Fax No: (510) 572-1586

<u>LRI:</u>

Lam Research International Sarl
Chemin de al Combeta 5
La Chaux-de-Fonds
Switzerland 2300
Attn: Craig Garber
Telephone: 41-32-924-2901
Fax No:

With a copy to Lam Research Corporation:

Lam Research Corporation
4650 Cushing Parkway
Fremont, CA 94538-6517
Attn: Roch LeBlanc
Telephone: (510) 572-3547
Fax No: (510) 572-1586

If to Buyer: ABN AMRO Bank N.V.
540 West Madison
Suite 2500
Chicago, IL
Attn: Deborah Scholl
Telephone: (312) 904-0575
Fax No: (312) 904-7399

A party may change the address at which it is to receive notices hereunder by written notice in the foregoing manner given to the other party. All such communications shall be effective (i) when sent by any recognized overnight delivery service, on the second business day following the deposit with such service; (ii) when mailed, first class postage prepaid and addressed as aforesaid through the United States Postal Service, upon receipt; (iii) when delivered by hand, upon delivery; and (iv) when faxed, upon confirmation of receipt.

8. <u>Survival</u>. All covenants, representations and warranties made herein shall continue in full force and effect so long as any Purchased Receivables remain outstanding. Sellers' obligations to indemnify Buyer with respect to the expenses, damages, losses, costs and liabilities shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Buyer have run.

9. <u>Expenses</u>. Sellers shall pay on demand (i) all reasonable fees and expenses, including reasonable attorneys' fees and expenses, incurred by Buyer in connection with the preparation, execution and delivery of, and the exercise of its duties under, this Agreement and the preparation, execution and delivery of amendments and waivers hereunder and (ii) all reasonable fees and expenses, including reasonable attorneys' fees and expenses, actually incurred by Buyer in connection with the enforcement or attempted enforcement against any

Approved Customer or either Seller of this Agreement or in preserving any of Buyer's rights and remedies against any Approved Customers or either Seller.

10. No Representation By Buyer. Buyer makes no representation or warranty to Sellers or any other party with respect to the characterization of the transactions hereunder as a sale under applicable laws, rules or accounting principles or guidelines.

11. Definitions. As used herein, the following terms shall have the following meanings:

"Adjustment Percentage": the percentage used to calculate the Purchase Price based upon the aggregate Net Invoice Amount of the Purchased Receivables on any Purchase Date as follows: (i) in the case of any Purchased Receivables which are Eligible Long-Term Receivables, .40% per annum, and (ii) in any other cases, .25% per annum.

"Approved Country": as of any date of determination, each country covered by the Insurance Policy as of such date (provided, that the exclusion of any country from the Insurance Policy as of any date shall not in and of itself affect any Receivables previously purchased with respect to such country).

"Approved Customers": as of any date of determination, those account debtors of Receivables generated by a Seller and covered by the Insurance Policy as of such date (provided, that the exclusion of any account debtor from the Insurance Policy as of any date shall not in and of itself affect any Receivables previously purchased with respect to such account debtor).

"Assignment": See Section 1(a).

"Average Collection Days": the number obtained by dividing the Aggregate Collection Amounts by the aggregate Purchased Receivables Payments Received. The Aggregate Collection Amounts is the sum of the Collection Amounts for all of the Purchased Receivables Payments Received. The Collection Amount with respect to a Purchased Receivables Payment Received is an amount obtained by multiplying such Purchased Receivable Payment Received by the number of days from the Purchase Date to the date that Buyer received such Purchased Receivable Payment Received (expressed as dollar days). Purchased Receivables Payments Received are the payments that Buyer receives with respect to the amounts owed by the Approved Customers with respect to the Purchased Receivables, whether such payments are (i) the payments made by or on behalf of the Approved Customers, (ii) the payments made with respect to the Purchased Receivables under the Insurance Policy, or (iii) the payments made by a Seller hereunder with respect to the Purchased Receivables.

"Business Day": any day that is not a Saturday, Sunday or other day on which banks in California are required or permitted to close.

"Buyer": See the introductory paragraph hereof.

"Calculation Date": See Section 1(g).

"Change of Control": (i) the acquisition of beneficial ownership by any "person" or "group" (as defined in §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 either Seller; or (ii) a merger or consolidation of either Seller with any other Person or the merger of any other Person into Seller or any other transaction, as a result of which the stockholders of such Seller 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 either Seller are not Continuing Directors. A "Continuing Director" shall mean any director of the Board of Directors of such Seller who is either (A) a member of such Board of Directors on the initial Purchase Date with respect to such Seller 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; or (iv) with respect to LRI, LRI shall cease to be majority owned and controlled by Lam.

"Charged-Off Receivable": any Receivable that is charged-off or should be charged-off under the credit and collections policy of Seller.

"Collection Expenses Account": See Section 1(g).

"Collection Expenses": all the fees and expenses incurred in collecting the Purchased Receivables, including all reasonable attorneys' fees and expenses incurred in enforcing Buyer's rights and remedies as the owner of the Purchased Receivables.

"Defaulted Receivable": Receivables over 90 days past due, that are not Charged-Off Receivables.

"Delinquent Receivable": Receivables over the applicable due date of either 30, 60 or 90 days, as appropriate for the Approved Customer(s), but less than 90 days, past due.

"Discount Rate": With respect to any Purchased Receivables means the sum of (a) the applicable LIBO Rate as quoted by Buyer three (3) Business Days prior to the Purchase Date in respect of such Purchased Receivables and (b) the Adjustment Percentage in respect of such Purchased Receivables.

"Dispute": any dispute, deduction, claim, offset, defense or counterclaim of any kind relating to the Purchased Receivables, regardless of whether the same (i) is in an amount greater than, equal to or less than the Purchased Receivables concerned, (ii) is bona fide or not, or (iii) arises by reason of an act of God, civil, strife, war, currency restrictions, foreign political restrictions or regulations or any other circumstance beyond the control of the applicable Seller or the applicable Approved Customer.

"Drawdown Fee": a non-refundable fee to be paid by Sellers to Buyer on each Purchase Date based upon a percentage of the aggregate Net Invoice Amount as follows: (i) in the case of any Purchased Receivables which are Eligible Long-Term Receivables, .40% of the aggregate Net Invoice Amount, and (ii) in all other cases, .20% of the aggregate Net Invoice Amount.

"Effective Date": the effective date of this Agreement, which shall be the date on which the items listed on Schedule 2 as deliverable on or prior to such date have been delivered.

"Eligible Long-Term Receivables" means Initial Payments under Receivables which (i) have payment terms of over 90 days, but not in excess of 360 days, from the invoice date, and (ii) otherwise constitute Eligible Receivables.

"Eligible Receivables": Initial Payments under Receivables owing to a Seller by Approved Customers that are located in Approved Countries, with standard sales terms, that are insured for their full face value (less deductibles and risk retention) under the Insurance Policy, which meet the following criteria:

1. Such Receivable arises under a valid and binding contract;

2. The transfer of such Receivable (and related contract) does not violate any contractual obligation of Seller or any applicable law,

3. Such Receivable does not constitute a Charge-Off Receivable, a Delinquent Receivable or a Defaulted Receivable; and

4. Such Receivable satisfies other requirements and criteria required by Buyer.

"Events of Repurchase": See Section 6 hereof.

"Guaranty: See Schedule 2.

"Initial Payment": the initial payment due from the Approved Customer under the Eligible Receivable.

"Insurance Policy": one or more irrevocable insurance policies, in form and substance satisfactory to Buyer, in its sole discretion, which shall insures Seller against any buyer-approved risk or any non-payment by an Approved Customer of any Receivables, the terms of which shall remain in effect through the first anniversary of the date hereof and under which Buyer shall be the loss payee, a form of which is attached hereto as Exhibit "D".

"Insurer": the insurance company or companies that issue the Insurance Policy.

"Lam": See the introductory paragraph hereof.

"LIBO Rate": the rate for deposits in United States Dollars for a period of 30, 60 or 90 days (or such other period as may be selected by Buyer to approximate as closely as possible the due date(s) of the Purchased Receivable(s)) which appears on the Telerate Page 3750 as of 11:00 a.m., London time, on the day that is three Business Days preceding the Purchase Date, provided that if such rate does not appear on the Telerate Page 3750, "LIBO Rate" shall mean the arithmetic mean of the rates, expressed as a decimal, quoted to Buyer at such time on such day by two or more major banks in the London interbank market selected in good faith by Buyer as a rate per annum at which such deposit, for such period commencing on such first day and in such amount that Buyer reasonably determines is representative for a single transaction in such market on such day, is offered.

"LRI": See the introductory paragraph hereof.

"March Agreement": See the Recitals hereto.

"Material Adverse Change": a material adverse change in the business, assets, property, condition (financial or otherwise) or prospects of either Seller and its subsidiaries, taken as a whole, as determined by Buyer in its sole and absolute discretion.

"Net Funds": See Section 1(g).

"Net Invoice Amount": the amount of the applicable Purchased Receivable constituting the Initial Payment, as shown on the invoice for such Purchased Receivable as payable by the Approved Customers (net of any discounts, credits or other allowances shown on such invoice to the extent the aggregate amount thereof exceeds the total amount of the invoice less the Initial Payment).

"Person": an individual, a partnership, a corporation (including a business trust), a joint stock company, an unincorporated association, a limited liability company, a joint venture, a trust or other entity or a governmental authority.

"Prime Rate": the per annum rate publicly announced by Buyer from time to time at its Chicago office as its "prime rate". The Prime Rate is determined by Buyer from time to time as a means of pricing credit extensions to some customers and is neither directly tied to any external rate of interest or index nor necessarily the lowest rate of interest charged by Buyer at any given time for any particular class of customers or credit extensions. Any change in the Prime Rate shall become effective on the Business Day on which each such change in the Prime Rate occurs.

"Prohibited Indebtedness Default": either Seller or any of its 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 but including any other evidence of indebtedness of either Seller or any of its subsidiaries to Buyer or any of its affiliates) 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 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 either Seller or its subsidiaries (excluding this Agreement) and as a result such Seller or such subsidiary is required to repurchase sold receivables in an amount of $10,000,000 or more.

"Projected Collection Days": See Section 1(h).

“Purchase Agreement”: See the Recitals hereto.

“Purchase Date”: each date on which Buyer purchases Eligible Receivables.

“Purchase Date Receivables”: See Section 1(g).

“Purchase Period”: the period from and including the Effective Date up to March 21, 2006 or, if such date is extended from time to time pursuant to Section 12(d), any later date to which so extended.

“Purchase Price”: See Section 1(d).

“Purchased Receivables”: See Section 1(a).

“Receivables”: all accounts, instruments, documents, contract rights, general intangibles, chattel paper and all other forms of obligations owing to a Seller, whether now existing or hereafter created that represent bona fide obligations of an Approved Customer arising out of such Seller’s sale and delivery of goods and services in the ordinary course of business and all tax refunds, proceeds of insurance and other proceeds thereof.

“Receivables Documentation”: see Section 2(a).

“Request”: See Section 1(a).

“Sellers”: See the introductory paragraph hereof.

“Settlement Date”: See Section 5(e).

“Total Uncommitted Facility”: See Section 1(a).

“Waiting Period” has the meaning given to such term in the Insurance Policy.

12. General Provisions.

(a) This Agreement shall be governed by California law, without giving effect to conflicts of law principles. This Agreement represents the parties’ final agreement with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements with respect to such subject matter. No provision of this Agreement may be amended or waived except by a writing signed by the parties hereto. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that Sellers may not assign any of their rights hereunder without Buyer’s prior written consent, given in its sole discretion. Buyer shall have the right with the consent of Sellers not to be unreasonably withheld (which consent of Sellers shall not be required after the occurrence and during the continuation of an Event of Repurchase) to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Buyer’s obligations, rights and benefits hereunder to another bank or other financial institution reasonably approved by Sellers, so long as Buyer shall at all times act as agent for itself and any such assignee or other transferee in the administration of this Agreement.

(b) Each provision of this Agreement shall be severable from every other provision hereof for the purpose of determining the legal enforceability of any specific provision. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same agreement.

(c) EACH SELLER AND BUYER, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AS TO ANY ISSUE RELATING HERETO IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

(d) On or before ninety (90) days prior to the end of the Purchase Period, Sellers may request Buyer to extend the Purchase Period for an additional 364-day period. Sellers shall request each such extension by appropriately completing, executing and delivering to Buyer a written request (a "Purchase Period Extension Request"). Sellers understand that this Section 12(d) is included in this Agreement for Sellers' convenience in requesting extensions and acknowledges that Buyer has not promised (either expressly or by implication), and Buyer does not have any obligation or commitment, to extend the Purchase Period at any time. If Buyer, in its sole and absolute discretion, consents to any Purchase Period Extension Request, Buyer shall evidence such consent by executing and returning two (2) copies of the Purchase Period Extension Request to Sellers not later than the thirty-five (35) days after the date Sellers delivered to Buyer the Purchase Period Extension Request, in which case the definition of "Purchase Period" set forth in Section 11 shall be deemed amended as provided in the Purchase Period Extension Request as of the date of such written notice from Buyer to Sellers. If Buyer, in its sole and absolute discretion, denies such Purchase Period Extension Period, the Purchase Period shall expire at the end of such existing Purchase Period.

(e) If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due hereunder in one currency into another currency, the rate of exchange used shall be that at which in accordance with normal banking procedures Buyer could purchase the first currency with such other currency on the Business Day preceding that on which final judgment is given. The obligation of Sellers in respect of any such sum due to Buyer hereunder shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than in dollars in (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by Buyer of any sum adjudged to be so due in the Judgment Currency, Buyer may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the sum originally due to Buyer in the Agreement Currency, Sellers agree, as a separate obligation and notwithstanding any such judgment, to indemnify Buyer against such loss. If the amount of the Agreement Currency so purchased is greater than the sum originally due to the Buyer in such currency, Buyer agrees to return the amount of any excess to Sellers (or to any other Person who may be entitled thereto under applicable law).

(f) This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Agreement.

(g) ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF CALIFORNIA OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHEN DISTRICIT OF CALIFORNIA; PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT THE BUYER'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. EACH PARTY HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. EACH PARTY FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, TO THE ADDRESSES IN CALIFORNIA SET FORTH IN SECTION 7 FOR NOTICES OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF CALIFORNIA. EACH PARTY HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM

(h) The obligations, representations, warranties, covenants and agreements of each Seller under this Agreement are several and not joint and several.

[The Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

SELLERS
LAM RESEARCH CORPORATION,
a Delaware corporation

By: /s/ Roch Leblanc

Title: Treasurer

LAM RESEARCH INTERNATIONAL SARL, a
Swiss corporation

By: /s/ Mark S. Frey

Title: V.P. and Corporate Controller

BUYER
ABN AMRO BANK N.V.

By: /s/ Nancy A. Biondi

Title: Director, ABN Amro Global Trade Advisory

By: /s/ Michael Klausner

Title: Senior Vice President, ABN Amro Global Trade Advisory

<u>EXHIBIT “A”</u>

<u>Instrument of Transfer and Assignment</u>

The undersigned [Lam Research Corporation, a Delaware corporation] [Lam Research International SARL, a Swiss corporation] (the “<u>Seller</u>”), for valuable consideration which is hereby acknowledged, hereby sells, assigns, sets over and transfers to ABN AMRO Bank N.V. (“<u>Buyer</u>”), all of Seller’s right, title and interest in and to the Initial Payments under the accounts receivable listed on <u>Exhibit “1”</u> attached hereto.

This assignment and transfer is made without recourse, warranty or representation, except as expressly set forth in the Third Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement, dated as of March 22, 2005, among Sellers (as defined therein) and Buyer.

[LAM RESEARCH CORPORATION,
a Delaware corporation] [LAM RESEARCH
INTERNATIONAL SARL, a Swiss corporation]

By: ______________________________
Title: ______________________________

Date: ____________________

EXHIBIT "1"

List of Purchased Receivables

Customer	Invoice Number	Shipment Date	Total Invoice Amount	Initial Payment	Customer P.O. #	Due Date

EXHIBIT “B”

Reserved

EXHIBIT "C"

Insurance Policy Requirements; Repurchase Limit; Purchase Percentage

Insurance Policy Requirements

Commencing on each Purchase Date and continuing until the next Purchase Date, the Insurance Policy shall provide for (i) an aggregate policy limit in an amount equal to $50,000,000 Million Dollars ($50,000,000), (ii) a co-insurance percentage of not greater than twenty percent (20%) of the Net Invoice Amount of all the Purchased Receivables purchased hereunder through and including such Purchase Date (the "co-insurance percentage"), and (iii) a total deductible not greater than $0 (the "Deductible Limit").

Repurchase Limit

The Repurchase Limit, as of any date and with respect to the Purchased Receivables purchased on such Purchase Date, shall be the sum of (i) the amount obtained by multiplying the co-insurance percentage under the Insurance Policy by the Net Invoice Amount of all the Purchased Receivables purchased hereunder on such date and (ii) the Deductible Limit under the Insurance Policy as of such date.

Purchase Percentage

The Purchase Percentage with respect to Purchased Receivables on a Purchase Date shall be the percentage determined by calculating (i) the Discount Rate applicable to such Purchased Receivable times (ii) one hundred and twenty (120) divided by (iii) three hundred and sixty (360).

EXHIBIT "D"

Form of Insurance Policy

See Attached

Additional Insured Endorsement — See Attached

SCHEDULE 2

Initial Conditions Precedent

1. This Agreement, duly executed by Buyer and Sellers.

2. The Certificate of Incorporation of Lam, certified as of a recent date prior to the Effective Date by the Secretary of State (or comparable official) of its jurisdiction of incorporation.

3. A Certificate of Good Standing including tax good standing (or comparable certificate) for Lam, certified as of a recent date prior to the Effective Date by the Secretary of State (or comparable official) of its jurisdiction of incorporation.

4. A certificate of a senior officer of Lam, dated the Effective Date, certifying (a) that attached thereto is a true and correct copy of the Bylaws of Lam as in effect on the Effective Date; (b) (i) that attached thereto are true and correct copies of resolutions duly adopted by the Board of Directors of Lam and continuing in effect, which authorize the execution, delivery and performance by Lam of this Agreement and the Guaranty and the consummation of the transactions contemplated hereby and thereby, and (ii) that within five (5) days of Lam's May 2005 Board of Directors meeting Lam shall deliver written confirmation of the resolutions duly adopted by the Board of Directors on February 17, 2005; and (c) that there are no proceedings for the dissolution or liquidation of Lam.

5. A certificate of a senior officer of Lam, dated the Effective Date, certifying the incumbency, signatures and authority of the officers of Lam authorized to execute, deliver and perform this Agreement and the Guaranty and all other documents, instruments or agreements related thereto executed or to be executed by Lam.

6. Certificates of Good Standing (including tax good standing for California) (or comparable certificates) for Lam, certified as of a recent date prior to the Effective Date by the Secretary of State of California.

7. A copy of the audited consolidated financial statements of Lam for the fiscal year ended June 27, 2004 prepared by Ernst & Young and a copy of the unqualified opinion delivered by such accountants in connection with such financial statements.

8. A copy of the 10-K report filed by Lam with the Securities and Exchange Commission for the fiscal year ended June 27, 2004.

9. A copy of the 10-Q report filed by Lam with the Securities and Exchange Commission for the fiscal quarter ended December 26, 2004.

10. Such other financial, business and other information regarding Sellers, or any of their subsidiaries, as Buyer may reasonably request, including information as to possible contingent liabilities, tax matters, environmental matters and obligations for employee benefits and compensation.

11. A UCC-1 financing statement listing Lam as “Assignor” and Buyer as “Assignee” reflecting the transfers contemplated pursuant to this Agreement shall be on file with the Delaware Secretary of State.

12. An opinion of each Seller’s in-house or external legal counsel, addressed to Buyer, covering such legal matters as Buyer may reasonably request and otherwise in form and substance satisfactory to Buyer.

13. Payment of all fees and expenses payable to Buyer and its counsel on or prior to the Effective Date, including the fees and expenses of McGuireWoods LLP, counsel to Buyer.

14. A copy of a Third Amended and Restated Guaranty in form and substance satisfactory to Buyer (the “Guaranty”) duly executed by Lam, pursuant to which Lam guaranties the performance of LRI under the Agreement.

15. As to LRI, an excerpt from the commercial registry showing (i) that LRI still exists, (ii) that LRI has not been liquidated and (iii) the authorized signatories for LRI, certified as of a recent date prior to the Effective Date by an appropriate official of its jurisdiction of incorporation.

16. A certificate of a senior officer of LRI dated the Effective Date, certifying (a) that attached thereto is a true and correct copy of the organizational documents of LRI as in effect on the Effective Date; (b) that attached thereto are true and correct copies of resolutions duly adopted by the Board of Directors of LRI and continuing in effect, which authorize the execution, delivery and performance by LRI of this Agreement and the consummation of the transactions contemplated hereby; and (c) that there are no proceedings for the dissolution or liquidation of LRI.

17. A certificate of a senior officer of LRI, dated the Effective Date, certifying the incumbency, signatures and authority of the officers of LRI authorized to execute, deliver and perform this Agreement and all other documents, instruments or agreements related thereto executed or to be executed by LRI.

18. Evidence that no action is required to perfect in all relevant Swiss jurisdictions the sale of the Purchased Receivables to be sold by LRI to Buyer satisfactory to Buyer, which evidence may be contained in the opinion of LRI’s counsel to be delivered pursuant to item 12 above.

Exhibit 11.2

THIRD AMENDED AND RESTATED GUARANTY

THIS THIRD AMENDED AND RESTATED GUARANTY (this "*Guaranty*") dated as of March 22, 2005 is executed by Lam Research Corporation, a Delaware corporation (the "*Guarantor*") in favor of ABN AMRO BANK N.V. and any of its offices, subsidiaries or affiliates (the "*Bank*").

W I T N E S S E T H:

WHEREAS, the Guarantor, Lam Research International SARL ("*LRI*") and the Bank have entered into that certain Third Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement, dated as of March 22, 2005, (the "*Purchase Agreement*"), amending and restating that certain Second Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement dated as of March 21, 2003 (the "*March Agreement*"), as amended by that certain Second Amendment to Second Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement, dated as of March 26, 2004 (the "*Second Amendment*") and that certain Amendment to Second Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement, dated as of September 24, 2003 (the "*First Amendment*"; the First Amendment together with the Second Amendment and the March Agreement, collectively the "*Original Purchase Agreement*"), whereby the Guarantor, LRI and the Bank agreed to amend and restate the Original Purchase Agreement to, *inter alia*, decrease the receivables purchase facility to $50,000,000 and extend the Purchase Period to March 21, 2006;

WHEREAS, the Guarantor executed an Amended and Restated Guaranty dated as of June 2, 2004 (the "*Amended and Restated Guaranty*") amending and restating that certain guaranty dated as of September 24, 2003 (together with the Amended and Restated Guaranty, the "*Original Guaranty*") whereby LAM guaranteed LRI's liabilities under the Original Purchase Agreement;

WHEREAS, the Bank may from time to time purchase, on an uncommitted basis, certain accounts receivable not to exceed $50,000,000, from the Guarantor and LRI; and

WHEREAS, the Guarantor is decreasing its exposure under the Original Guaranty to accommodate the decrease in the receivables purchase facility and to guaranty the Liabilities (as defined below) as hereinafter set forth;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged:

1. (a) The Guarantor hereby unconditionally and irrevocably, as primary obligor and not merely as surety, guarantees the full and prompt payment when due, whether by acceleration or otherwise, and at all times thereafter, of all obligations (monetary or otherwise) of LRI arising pursuant to the Purchase Agreement to the Bank, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due (all such obligations being herein collectively called the "*Liabilities*"). All payments by the Guarantor hereunder shall be made in United States Dollars.

(b) The liability of the Guarantor under this Guaranty shall be absolute and unconditional irrespective of any lack of genuineness, validity, legality or enforceability of the Purchase Agreement or any other document, agreement or instrument relating thereto or any assignment or transfer of any thereof or the occurrence of a "Country Risk Event" or "New Money Credit Event" (as hereinafter defined).

For purposes hereof:

"*Country Risk Event*" means (a) the adoption of any law, rule or regulation or the action or failure to act by any authority (*de jure* or *de facto*) in LRI's country which (i) changes the Liabilities as originally agreed, (ii) changes the ownership or control by LRI of its business or assets and/or the Bank's ownership of its branch or subsidiary in the LRI's country, or (iii) prevents or restricts the conversion into or transfer of the agreed currency; or (b) the occurrence of any *force majeure* or similar event which, directly or indirectly, prevents or restricts the payment or transfer of any funds made available by the Bank to its branch or subsidiary in LRI's country in the agreed currency into an account designated by the Bank and freely available to the Bank.

"*New Money Credit Event*" means any increase (directly or indirectly) in the Bank's exposure (whether by way of additional credit or banking facilities or otherwise, including as part of a restructuring) to LRI occurring by reason of (i) any law, action or requirement of any authority (*de jure* or *de facto*) or other person in LRI's country or (ii) any request of external indebtedness of borrowers in LRI's country applicable to banks generally which conduct business with such borrowers or (iii) any agreement in relation to (i) or (ii), in each case to the extent calculated by reference to the Liabilities outstanding prior to such increase.

Upon execution of this Guaranty, this Guaranty shall amend and completely restate and supersede the Original Guaranty. Notwithstanding the amendment and restatement of the Original Guaranty by this Guaranty, the indebtedness, liabilities and obligations owing to Bank by LRI under the Original Purchase Agreement remain outstanding as of the date hereof, constitute continuing Liabilities hereunder and shall continue to be secured by the collateral described in and pursuant to the Purchase Agreement but are payable in accordance with the terms of this Guaranty and the Purchase Agreement. This Guaranty is given in substitution for and as a continuation and extension of the Original Guaranty and is in no way intended to constitute a novation of the Original Guaranty.

2. This Guaranty shall in all respects be a continuing, irrevocable, absolute and unconditional guaranty, and shall remain in full force and effect (notwithstanding, without limitation, the dissolution of the Guarantor or that at any time or from time to time no Liabilities are outstanding) until all commitments to create Liabilities have terminated and all Liabilities have been paid in full.

3. The Guarantor further agrees that if at any time all or any part of any payment theretofore applied by the Bank to any of the Liabilities is or must be rescinded or returned by the Bank for any reason whatsoever (including the insolvency, bankruptcy or reorganization of LRI or the Guarantor), such Liabilities shall, for the purposes of this Guaranty, to the extent that such payment is or must be rescinded or returned, be deemed to have continued in existence, notwithstanding such application by the Bank, and this Guaranty shall continue to be effective or be reinstated, as the case may be, as to such Liabilities, all as though such application by the Bank had not been made.

4. The Bank may, from time to time, at its sole discretion and without notice to the Guarantor, take any or all of the following actions: (a) retain or obtain a security interest in any property to secure any of the Liabilities or any obligation hereunder, (b) retain or obtain the primary or secondary obligation of any obligor or obligors, in addition to the Guarantor, with respect to any of the Liabilities, (c) extend or renew any of the Liabilities for one or more periods (whether or not longer than the original period), alter or

exchange any of the Liabilities, or release or compromise any obligation of the Guarantor hereunder or any obligation of any nature of any other obligor with respect to any of the Liabilities, (d) release its security interest in, or surrender, release or permit any substitution or exchange for, all or any part of any property securing any of the Liabilities or any obligation hereunder, or extend or renew for one or more periods (whether or not longer than the original period) or release, compromise, alter or exchange any obligations of any nature of any obligor with respect to any such property, and (e) resort to the Guarantor for payment of any of the Liabilities when due, whether or not the Bank shall have resorted to any property securing any of the Liabilities or any obligation hereunder or shall have proceeded against any other obligor primarily or secondarily obligated with respect to any of the Liabilities.

5. The Guarantor hereby expressly waives: (a) notice of the acceptance by the Bank of this Guaranty, (b) notice of the existence or creation or non-payment of all or any of the Liabilities, (c) presentment, demand, notice of dishonor, protest, and all other notices whatsoever, and (d) all diligence in collection or protection of or realization upon any Liabilities or any security for or guaranty of any Liabilities.

6. Notwithstanding any payment made by or for the account of the Guarantor pursuant to this Guaranty, the Guarantor shall not be subrogated to any right of the Bank until such time as the Bank shall have received final payment in cash of the full amount of all Liabilities.

7. The Guarantor further agrees to pay all expenses (including the reasonable attorneys' fees and charges including that of internal counsel) paid or incurred by the Bank in endeavoring to collect the Liabilities, or any part thereof, and in enforcing this Guaranty against the Guarantor.

8. The creation or existence from time to time of additional Liabilities to the Bank is hereby authorized, without notice to the Guarantor, and shall in no way affect or impair the rights of the Bank or the obligations of the Guarantor under this Guaranty, including the Guarantor's guaranty of such additional Liabilities.

9. Subject to the limitations contained in Section 12(a) of the Purchase Agreement, the Bank may from time to time without notice to the Guarantor, assign or transfer any or all of the Liabilities or any interest therein. Notwithstanding any such assignment or transfer or any subsequent assignment or transfer thereof, such Liabilities shall be and remain Liabilities for the purposes of this Guaranty, and each and every immediate and successive assignee or transferee of any of the Liabilities or of any interest therein shall, to the extent of the interest of such assignee or transferee in the Liabilities, be entitled to the benefits of this Guaranty to the same extent as if such assignee or transferee were the Bank.

10. No delay on the part of the Bank in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise by the Bank of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy; nor shall any modification or waiver of any provision of this Guaranty be binding upon the Bank, except as expressly set forth in a writing duly signed and delivered by the Bank. No action of the Bank permitted hereunder shall in any way affect or impair the rights of the Bank or the obligations of the Guarantor under this Guaranty. For purposes of this Guaranty, Liabilities shall include all obligations of LRI to the Bank, notwithstanding any right or power of LRI or anyone else to assert any claim or defense as to the invalidity or lack of enforceability of any such obligation, and no such claim or defense shall affect or impair the obligations of the Guarantor hereunder.

11. This Guaranty shall be binding upon the Guarantor and the successors and assigns of the Guarantor. All references herein to LRI shall be deemed to include any successor or successors to LRI.

12. Notwithstanding anything contained herein to the contrary, this Guaranty shall not in any way diminish the rights and obligations of Guarantor as Collection Agent and Seller under the Purchase Agreement.

13. Except for notices and demands required to be delivered or made upon Guarantor pursuant to the Purchase Agreement, the undersigned hereby waives, to the extent permitted by the laws of the State of California: (a) any notice required by law or otherwise to preserve any rights hereunder or under the Purchase Agreement against Guarantor or against LRI, including without limitation (i) acceptance, presentment, demand, protest, or proof of non-performance of any Liabilities, (ii) any notice of the acceptance of this Guarantee, (iii) any notices of the creation, renewal, extension or accrual of any Liabilities or any notice of or proof of reliance by the Bank upon this Guarantee or acceptance of this Guarantee, and (iv) all notices which may be required by statute, rule of law or otherwise, now or hereafter in effect, to preserve intact any rights of the Bank against Guarantor, (b) any remedy contained in the Purchase Agreement or otherwise available to the undersigned, (c) any requirement of diligence on the part of any Person, including without limitation diligence in making any claim or commencing suit hereon or on the Purchase Agreement and any requirement to mitigate damages or exhaust remedies under the Purchase Agreement, (d) the right to interpose all substantive and procedural defenses of the law of guarantee, indemnification and suretyship, except the defenses of prior payment or prior performance by Guarantor of the Liabilities, (e) all rights and remedies accorded by the laws of the State of California to guarantors or sureties, including any extension of time conferred by any law now or hereafter in effect, (f) any right or claim of right to cause a marshaling of LRI's assets or to cause the Bank to proceed against LRI or any collateral held by the Bank at any time or in any particular order, (g) any rights to the enforcement, assertion or exercise by the Bank of any right, power, privilege or remedy conferred herein or in the Purchase Agreement or otherwise, (h) any notices of the sale, transfer or other disposition of any right, title to or interest in the Purchase Agreement, and (i) any other right whatsoever which might otherwise constitute a discharge, release or defense of the undersigned hereunder or which might otherwise limit recourse against Guarantor. No failure to exercise and no delay in exercising, on the part of the Bank, any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or thither exercise thereof, or the exercise of any other power or right. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law. Guarantor expressly waives any and all benefits under Sections 2787 to 2855, inclusive, and Sections 2899 and 3433 of the California Civil Code.

14. This Guaranty shall be governed by and construed in accordance with and governed by the laws of the State of California applicable to contracts made and to be fully performed in such State. Wherever possible, each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Guaranty shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

15. This Guaranty may be executed in any number of counterparts and by the different parties hereto on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Guaranty.

16. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS GUARANTY, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF CALIFORNIA OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHEN DISTRICIT OF CALIFORNIA; PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT THE BANK'S OPTION, IN THE COURTS OF ANY

JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. THE GUARANTOR HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. THE GUARANTOR FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, TO THE ADDRESS SET FORTH OPPOSITE ITS SIGNATURE HERETO (OR SUCH OTHER ADDRESS AS IT SHALL HAVE SPECIFIED IN WRITING TO THE BANK AS ITS ADDRESS FOR NOTICES HEREUNDER) OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF CALIFORNIA. THE GUARANTOR HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

17. THE GUARANTOR AND THE BANK (BY ACCEPTING THE BENEFITS HEREOF), HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS GUARANTY AND ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR ARISING FROM ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, AND AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

[the Signature Page Follows]

IN WITNESS WHEREOF, this Guaranty has been duly executed and delivered as of the day and year first above written.

LAM RESEARCH CORPORATION
a Delaware corporation

By: /s/ Roch Leblanc

Title: Treasurer

EXHIBIT 31.1

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

I, James W. Bagley, Chairman and Chief Executive Officer of Lam Research Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lam Research Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2005

/s/ James W. Bagley

James W. Bagley
Chairman and Chief Executive Officer

EXHIBIT 31.2

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

I, Martin B. Anstice, Vice President, Finance, Chief Financial Officer and Chief Accounting Officer of Lam Research Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lam Research Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2005

/s/ Martin B. Anstice

Martin B. Anstice
Vice President, Finance,
Chief Financial Officer and
Chief Accounting Officer

EXHIBIT 32.1

SECTION 1350 CERTIFICATION (PRINCIPAL EXECUTIVE OFFICER)

In connection with the Quarterly Report of Lam Research Corporation (the "Company") on Form 10-Q for the fiscal period ending March 27, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James W. Bagley, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 5, 2005

/s/ James W. Bagley

James W. Bagley
Chairman and Chief Executive Officer

EXHIBIT 32.2

SECTION 1350 CERTIFICATION (PRINCIPAL FINANCIAL OFFICER)

In connection with the Quarterly Report of Lam Research Corporation (the “Company”) on Form 10-Q for the fiscal period ending March 27, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Martin B. Anstice, Vice President, Finance, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 5, 2005

/s/ Martin B. Anstice

Martin B. Anstice
Vice President, Finance,
Chief Financial Officer and
Chief Accounting Officer