

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

FORM 10-Q

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

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

FOR QUARTER ENDED SEPTEMBER 30, 1995

Commission File No. 0-12933

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

94-2634797
(I.R.S. Employer
Identification Number)

4650 CUSHING PARKWAY, FREMONT, CALIFORNIA
(Address of principal executive offices)

94538
(Zip Code)

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

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

As of September 30, 1995 there were 27,380,498 shares of Registrant's Common Stock outstanding.

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ITEM 1. FINANCIAL STATEMENTS

LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands except per share data)

	September 30, 1995 (Unaudited) -----	June 30, 1995 (Note) -----
Assets		
Cash and cash equivalents	\$12,532	\$43,675
Short-term investments	98,970	57,334
Accounts receivable, net	207,029	195,682
Inventories	185,609	171,401
Prepaid expenses and other assets	11,933	25,263
Deferred income taxes	32,778	32,778
	-----	-----
Total Current Assets	548,851	526,133
Equipment and leasehold improvements, net	128,686	117,571
Restricted cash	25,024	25,024
Other assets	16,328	13,921
	-----	-----
Total Assets	\$718,889	\$682,649
	-----	-----
Liabilities and Stockholders' Equity		
Trade accounts payable	\$84,784	\$82,542
Accrued expenses and other current liabilities	108,087	98,633
Current portion of long-term debt and capital lease obligations	4,964	7,572
	-----	-----
Total Current Liabilities	197,835	188,747
Long-term debt and capital lease obligations, less current portion	91,995	95,928
Deferred income taxes	2,712	2,712
	-----	-----
Total Liabilities	292,542	287,387
Preferred stock: 5,000 shares authorized; none outstanding		
Common Stock at par value of \$.001 per share Authorized -- 90,000 shares; issued and outstanding 27,380 shares at September 30, 1995 and 27,275 shares at June 30, 1995	27	27

Additional paid-in capital	225,348	224,730
Retained earnings	200,972	170,505
	-----	-----
Total Stockholders' Equity	426,347	395,262
	-----	-----
	\$718,889	\$682,649
	-----	-----
	-----	-----

Note -- The Condensed Consolidated Balance Sheet at June 30, 1995 has been derived from the audited financial statements at that date.

See Notes to condensed consolidated financial statements.

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LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands except per share data)
(Unaudited)

	Three Months Ended	
	September 30,	
	1995	1994
	-----	-----
Net sales	\$257,747	\$158,920
Royalty income	5,497	2,593
	-----	-----
Total revenue	263,244	161,513
Costs and expenses:		
Cost of goods sold	134,707	84,690
Research and development	35,983	25,324
Selling, general and administrative	47,584	29,119
	-----	-----
Operating income	44,970	22,380
Other expense, net	172	876
	-----	-----
Income before income taxes	44,798	21,504
Income taxes	14,331	6,451
	-----	-----
Net income	\$30,467	\$15,053
	-----	-----
Net income per share		
Primary	\$1.07	\$0.61
	-----	-----
Fully diluted	\$1.00	\$0.58
	-----	-----
Number of shares used in per share calculations		
Primary	28,400	24,500
	-----	-----
Fully diluted	31,125	27,275
	-----	-----
	-----	-----

See Notes to condensed consolidated financial statements.

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LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	September 30, 1995	September 30, 1994
Cash flows from operating activities:		
Net income	\$30,467	\$15,053
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,153	4,877
Change in certain working capital accounts	(12,566)	(18,607)
Net cash provided by operating activities	25,054	1,323
Cash flows from investing activities:		
Capital expenditures	(18,206)	(12,581)
Purchase of short-term investments	(95,759)	--
Sale of short-term investments	54,123	--
Restricted cash	--	(2,618)
Proceeds from sales of securities	12,038	--
Other	(2,470)	(69)
Net cash used in investing activities	(50,274)	(15,268)
Cash flows from financing activities:		
Sale of stock, net of issuance costs	618	105,283
Principal payments on long-term debt and capital lease obligations	(6,541)	(2,912)
Net cash provided by (used in) financing activities	(5,923)	102,371
Net increase (decrease) in cash and cash equivalents	(31,143)	88,426
Cash and cash equivalents at beginning of period	43,675	24,092
Cash and cash equivalents at end of period	\$12,532	\$112,518

See Notes to condensed consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Lam Research Corporation (the "Company") for the year ended June 30, 1995, which are included in the Annual Report on Form 10-K, File number 0-12933.

The results of operations for the three months ended September 30, 1995 are not necessarily indicative of the results that may be expected for the entire fiscal year ending June 30, 1996.

NOTE B -- INVENTORIES

Inventories consist of the following:

	September 30, 1995	June 30, 1995
	-----	-----
	(in thousands)	
Raw materials	\$86,799	\$80,910
Work-in-process	77,445	73,183
Finished goods	21,365	17,308
	-----	-----
	\$185,609	\$171,401
	-----	-----
	-----	-----

NOTE C -- EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	September 30, 1995	June 30, 1995
	-----	-----
	(in thousands)	
Equipment	\$80,986	\$80,910
Furniture & fixtures	27,968	25,372
Leasehold improvements	79,477	64,707
	-----	-----
	188,431	170,989
	-----	-----
Accumulated depreciation and amortization	(59,745)	(53,418)
	-----	-----
	\$128,686	\$117,571
	-----	-----
	-----	-----

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NOTE D -- OTHER EXPENSE, NET

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

	Three Months Ended September 30, 1995	1994
--	---	------

Interest Expense	\$1,968	\$1,436
Interest Income	(1,375)	(497)
Other	(421)	(63)
	\$172	\$876

NOTE E -- NET INCOME PER SHARE

For the three month periods ended September 30, 1995 and 1994, primary net income per share is calculated using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The common stock equivalents include shares issuable upon the assumed exercise of stock options reflected under the treasury stock method. In addition, fully diluted net income per share reflects the assumed conversion of the Company's convertible subordinated debentures at the beginning of each period, and also adds the interest expense incurred on the debentures, net of income tax effect, to the net income amount for use in the fully diluted calculation.

NOTE F -- LITIGATION

See Part II, item 1 for discussion of litigation

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The components of the Company's statements of income, expressed as a percentage of total revenue, are as follows:

	Three Months Ended September 30,	
	1995	1994
Net Sales	97.9%	98.4%
Royalty income	2.1	1.6
	100.0	100.0
Cost of goods sold	51.2	52.4
Research and development	13.6	15.7
Selling, general & administrative	18.1	18.0
Operating income	17.1	13.9
Other expense, net	0.1	0.6
Income before taxes	17.0	13.3
Income taxes	5.4	4.0
Net income	11.6%	9.3%

RESULTS OF OPERATIONS

Net sales for the three month period ended September 30, 1995 increased by 62% over the comparable prior year period. Increased unit sales of Transformer Coupled Plasma-trademark- (TCP-trademark-) and Rainbow-trademark- systems accounted for approximately 65% of the sales increase for the first quarter of fiscal year 1996 as compared to the comparable prior year period. The semiconductor manufacturing industry's continued acceptance of the TCP family of products has made it the fastest growing (in terms of revenue) product line in the Company's history. Export sales increased to 61% of net sales, for the three months ended September 30, 1995, from 52% of net sales for the same period of the prior year. Increased sales of all Lam product

lines in Korea accounted for 29% of the overall net sales increase; net sales in Europe were also much stronger than in the year-ago period. In addition, service and spares revenue which represented approximately 22% of total revenue, increased 72% as compared to the same period of the prior fiscal year, as a result of increases in the Company's installed machine base.

Royalty income increased by 112% from the year-ago quarter due to continued improvement in the Japanese semiconductor market which resulted in increased sales of products incorporating the Company's technology being licensed by Tokyo Electron Limited (TEL) and Sumitomo Metal Industries, Ltd. (SMI).

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The Company's gross margin percentage improved to 48.8% in the first quarter of fiscal 1996 as compared to 47.6% in the comparable quarter of fiscal 1995. The improvement in gross margin percentage resulted from increased shipments of Rainbow machines with a higher margin during the quarter ended September 30, 1995 as compared to the comparable period in the prior year. Partially offsetting the increase in margin from Rainbow sales were increased shipments of Alliance machines at lower margins during the quarter ended September 30, 1995 as compared to the prior year period.

Research and development (R&D) expense increased for the three month period ended September 30, 1995 by 42% over the prior year period but as a percentage of total revenue was lower than the comparable prior year period. The increased expense was due to continued expenditures on advanced etch applications, continued development of CVD technologies including Epic-trademark- and Integrity-Registered Trademark- and further enhancements of the TCP and Rainbow products. Although the Company has significantly increased engineering headcount and spending, these expenditures have increased at a slightly slower rate than the Company's revenue. The Company believes it is critical to continue to make investments in R&D programs in order to maintain its position as a technology leader. The Company's new research and development facility at its Fremont campus, which the Company began occupying in the first quarter of fiscal 1995 is now complete and fully operational. The Company is currently planning to lease another engineering facility to be constructed at its Fremont campus which is expected to be operational by the end of the current fiscal year.

Selling, general and administrative (S,G&A) expenses for the three month period ended September 30, 1995 increased by 63% over the prior year period but were almost equal to the prior year period as a percentage of revenue. The Company has added employees in all customer support, sales and administration areas to accommodate the increased sales volume. SG&A expenditures by the Company's foreign subsidiaries increased at a rate higher than that in the United States. The increase in the foreign expenditures for SG&A was needed to accommodate the increase in sales in foreign regions, particularly Asia Pacific. The Company opened a new manufacturing facility in Korea in July 1995 and is expanding its facilities in Japan and Taiwan. The Company therefore expects that SG&A expenses in Asia Pacific and Japan will continue to increase over the remainder of the fiscal year.

The effective tax rate for the fiscal 1996 period is 32% compared to 30% for the prior year period due primarily to the expiration of the federal research and development credit.

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LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$25.1 million for the three months ended September 30, 1995, derived from income before depreciation and amortization expenses totaling \$37.6 million, offset by the increases in inventories and accounts receivable related to the sales volume increase. Cash receipts from investing activities of \$12.1 million were provided from the sale of Brooks Automation, Inc. securities. In addition, \$24.9 million was provided from the sale of yen-denominated Japanese receivables to a bank (under an agreement entered into during fiscal 1995 whereby the Company may sell up to \$50.0 million of yen-denominated Japanese receivables to the

bank). Capital expenditures for the current three month period were \$18.2 million, primarily for new facility leasehold improvements, and furnishings at both the Fremont campus and the new manufacturing facility in Korea. The Company had net purchases of short-term investments of \$41.6 million. In addition, contributing to the overall use of cash were payments of \$6.5 million relating to long-term debt and capital lease obligations.

As of September 30, 1995, the Company had \$111.5 million in cash, cash equivalents and short-term investments compared with \$101.0 million at June 30, 1995. The Company has a total of \$50.0 million available under four bank lines of credit which expire between March and June 1996. There were no borrowings on any of the lines at September 30, 1995. The Company is currently renegotiating its pledge agreement to reduce the amount of restricted investments.

The Company's cash, cash equivalents, short-term investments and available lines of credit at the end of the first quarter of fiscal 1996 are considered adequate to support current levels of operations for at least the next twelve months.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 11.1 Statement Re: Computation of Earnings Per Share
Exhibit 27 Financial Data Schedule

(b) No reports on Form 8-K were filed by the Registrant during the quarter ended September 30, 1995.

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SIGNATURES

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

Date: November 13, 1995

LAM RESEARCH CORPORATION

By:

Henk J. Evenhuis, Executive Vice
President, Finance & Chief
Financial Officer

EXHIBIT 11.1

LAM RESEARCH CORPORATION
STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

	Three Months Ended			
	(In thousands except per share data)			
	September 30, 1995		September 30, 1994	
	----- Primary	Fully Diluted -----	----- Primary	Fully Diluted -----
Net income	\$30,467	\$30,467	\$15,053	\$15,053
Add interest expense on convertible subordinated debentures, net of income tax effect		803		749
	----- \$30,467	----- \$31,270	----- \$15,053	----- \$15,802
	-----	-----	-----	-----
Average shares outstanding	27,293	27,293	23,660	23,660
Net effect of dilutive stock options	1,107	1,192	840	975
Assumed conversion of convertible subordinated debentures		2,640		2,640
	----- 28,400	----- 31,125	----- 24,500	----- 27,275
	-----	-----	-----	-----
Net income per share	\$1.07	\$1.00	\$0.61	\$0.58
	-----	-----	-----	-----

<ARTICLE> 5

<LEGEND>

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

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