
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 26, 2006 or

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

For the transition period from _____ to _____

Commission file number 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-2634797

(I.R.S. Employer Identification 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 R NO £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). Check one:

Large accelerated filer R Accelerated filer £ Non-accelerated filer £

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

As of April 24, 2006, there were 140,632,759 shares of Registrant's Common Stock outstanding.

LAM RESEARCH CORPORATION
TABLE OF CONTENTS

	<u>Page No.</u>
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of March 26, 2006 and June 26, 2005</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended March 26, 2006 and March 27, 2005</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended March 26, 2006 and March 27, 2005</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	33
<u>PART II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	34
<u>Item 5. Other Information</u>	34
<u>Item 6. Exhibits and Reports on Form 8-K</u>	35
<u>Signatures</u>	36
<u>Exhibit Index</u>	37
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	
<u>EXHIBIT 32.2</u>	

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CONDENSED CONSOLIDATED BALANCE SHEETS**
(in thousands, except per share data)

	<u>March 26, 2006</u> (unaudited)	<u>June 26, 2005</u>
ASSETS		
Cash and cash equivalents	\$ 757,845	\$ 482,250
Short-term investments	233,528	327,003
Accounts receivable, less allowance for doubtful accounts of \$3,773 as of March 26, 2006 and \$3,865 as of June 26, 2005	319,150	232,005
Inventories	144,259	110,051
Deferred income taxes	50,813	76,660
Prepaid expenses and other current assets	34,173	16,867
Total current assets	1,539,768	1,244,836
Property and equipment, net	43,903	41,082
Restricted cash	85,038	85,038
Deferred income taxes	36,409	43,224
Other assets	33,707	34,635
Total assets	<u>\$ 1,738,825</u>	<u>\$ 1,448,815</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 107,142	\$ 60,218
Accrued expenses and other current liabilities	280,999	229,207
Deferred profit	119,168	89,708
Total current liabilities	507,309	379,133
Long-term liabilities less current portion	1,605	2,786
Total liabilities	508,914	381,919
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, at par value of \$0.001 per share; authorized - 5,000 shares, none outstanding	—	—
Common stock, at par value of \$0.001 per share; authorized - 400,000 shares; issued and outstanding - 140,144 shares at March 26, 2006 and 137,313 shares at June 26, 2005	140	137
Additional paid-in capital	896,437	744,672
Deferred stock-based compensation	—	(1,225)
Treasury stock, at cost, 12,956 shares at March 26, 2006 and 7,215 shares at June 26, 2005	(386,101)	(186,064)
Accumulated other comprehensive loss	(10,811)	(10,789)
Retained earnings	730,246	520,165
Total stockholders' equity	1,229,911	1,066,896
Total liabilities and stockholders' equity	<u>\$ 1,738,825</u>	<u>\$ 1,448,815</u>

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	March 26, 2006	March 27, 2005	March 26, 2006	March 27, 2005
Total revenue	\$ 437,423	\$ 349,337	\$ 1,116,575	\$ 1,148,686
Cost of goods sold	217,769	174,767	563,332	560,453
Gross margin	219,654	174,570	553,243	588,233
Research and development	61,083	47,226	168,067	144,641
Selling, general and administrative	48,303	34,518	138,317	120,920
Restructuring charges, net	—	14,201	—	14,201
Total operating expenses	109,386	95,945	306,384	279,762
Operating income	110,268	78,625	246,859	308,471
Other income, net	7,828	643	25,624	1,949
Income before income taxes	118,096	79,268	272,483	310,420
Income tax expense	31,759	19,817	58,877	77,605
Net income	<u>\$ 86,337</u>	<u>\$ 59,451</u>	<u>\$ 213,606</u>	<u>\$ 232,815</u>
Net income per share:				
Basic net income per share	<u>\$ 0.62</u>	<u>\$ 0.42</u>	<u>\$ 1.55</u>	<u>\$ 1.69</u>
Diluted net income per share	<u>\$ 0.60</u>	<u>\$ 0.41</u>	<u>\$ 1.49</u>	<u>\$ 1.64</u>
Number of shares used in per share calculations:				
Basic	<u>140,122</u>	<u>139,967</u>	<u>137,703</u>	<u>137,566</u>
Diluted	<u>144,846</u>	<u>144,756</u>	<u>143,298</u>	<u>142,362</u>

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended	
	March 26, 2006	March 27, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 213,606	\$ 232,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,235	19,212
Deferred income taxes	32,662	38,165
Restructuring charges, net	—	14,201
Amortization of premiums on securities	2,252	2,614
Stock-based compensation	17,319	367
Income tax benefit from stock option exercises	—	30,353
Other, net	(1,165)	17
Change in working capital accounts	(12,488)	(45,698)
Net cash provided by operating activities	<u>268,421</u>	<u>292,046</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(16,141)	(18,623)
Purchases of available-for-sale securities	(40,331)	(179,817)
Sales and maturities of available-for-sale securities	132,823	152,073
Net cash provided by / (used for) investing activities	<u>76,351</u>	<u>(46,367)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease	(67)	—
Treasury stock purchases	(214,209)	(67,793)
Reissuances of treasury stock	9,652	—
Proceeds from issuance of common stock	135,702	90,848
Net cash provided by / (used for) financing activities	<u>(68,922)</u>	<u>23,055</u>
Effect of exchange rate changes on cash	(255)	4,325
Net increase in cash and cash equivalents	275,595	273,059
Cash and cash equivalents at beginning of year	482,250	163,403
Cash and cash equivalents at end of period	<u>\$ 757,845</u>	<u>\$ 436,462</u>
Schedule of noncash transactions		
Acquisition of leased equipment	<u>\$ 1,088</u>	<u>\$ —</u>

See Notes to Condensed Consolidated Financial Statements

LAM RESEARCH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2006
(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 26, 2005, which are included in the Annual Report on Form 10-K, File Number 0-12933. The Company's Forms 10-K, Forms 10-Q and Forms 8-K are available online at the Securities and Exchange Commission website on the Internet. The address of that site is <http://www.sec.gov>. The Company also posts the Forms 10-K, Forms 10-Q and Forms 8-K on the corporate website at <http://www.lamresearch.com>.

The Company's reporting period is a 52/53-week fiscal year. The Company's current fiscal year will end June 25, 2006 and includes 52 weeks. The quarter ended March 26, 2006 and the quarter ended March 27, 2005 both included 13 weeks.

Reclassifications: Certain amounts presented in the comparative financial statements for prior years have been reclassified to conform to the fiscal 2006 presentation.

NOTE 2 — STOCK-BASED COMPENSATION PLANS

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

Prior to June 27, 2005, the Company accounted for its stock plans under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) and FASB Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25" (FIN No. 44). The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), effective June 27, 2005 using the modified prospective transition method. Under that transition method, stock-based compensation expense recognized during the three and nine months ended March 26, 2006 includes: (a) ESPP awards with offering periods commencing, and stock options and restricted stock units granted, prior to, but not yet vested as of June 27, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) ESPP with offering periods commencing and restricted stock units granted, subsequent to June 27, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Under the modified prospective transition method, results for prior periods are not restated.

The Company analyzed its stock-based compensation strategies prior to the adoption of SFAS No. 123R and made the decision to grant restricted stock units rather than stock options during the three and nine months ended March 26, 2006. The Company recognized stock-based compensation expense of \$6.0 million and \$17.3 million during the three and nine months ended March 26, 2006, respectively. Included in these amounts are expenses related to restricted stock units of \$3.1 million and \$7.8 million during the three and nine months ended March 25, 2006, respectively, which would have been included in the Company's Condensed Consolidated Statements of Operations under the provisions of APB No. 25. The expense related to restricted stock units is therefore excluded from the following table which presents the impact of the adoption of SFAS No. 123R for the three and nine months ended March 26, 2006.

[Table of Contents](#)

	Three Months Ended March 26, 2006		Nine Months Ended March 26, 2006	
	As Reported	Excluding impact of adoption of SFAS No. 123R	As Reported	Excluding impact of adoption of SFAS No. 123R
		(in thousands, except per share data)		
Net income before income taxes	\$ 118,096	\$ 120,997	\$ 272,483	\$ 281,918
Net income	86,337	88,783	213,606	221,652
Earnings per share — basic	0.62	0.63	1.55	1.61
Earnings per share — diluted	\$ 0.60	\$ 0.61	\$ 1.49	\$ 1.55

The income tax benefit recognized in the condensed consolidated statements of operations related to stock-based compensation expense was \$0.9 million and \$2.9 million during the three and nine months ended March 26, 2006, respectively. The estimated fair value of the Company's stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis for awards granted after the adoption of SFAS No. 123R and on a graded vesting basis for awards granted prior to the adoption of SFAS No. 123R.

The modified prospective transition method of SFAS No. 123R requires the presentation of pro forma information, for periods presented prior to the adoption of SFAS No. 123R, regarding net income (loss) and net income (loss) per share as if the Company had accounted for its stock plans under the fair value method of SFAS No. 123R. For pro forma purposes, fair value of stock options and ESPP awards was estimated using the Black-Scholes option valuation model and amortized on a graded vesting basis. 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 following table illustrates the effect on net income and net income per share if the Company had accounted for its stock plans under the fair value method of accounting under SFAS No. 123R:

	Three Months Ended March 27, 2005		Nine Months Ended March 27, 2005	
	(in thousands, except per share data)			
Net income — as reported	\$	59,451	\$	232,815
Add: compensation expense recorded under APB No. 25, net of tax		53		275
Deduct: pro forma compensation expense, net of tax		3,270		13,469
Net income — pro forma	\$	56,234	\$	219,621
Basic net income per share — as reported	\$	0.42	\$	1.69
Basic net income per share — pro forma		0.40		1.60
Diluted net income per share — as reported		0.41		1.64
Diluted net income per share — pro forma	\$	0.39	\$	1.54

The fair value of the Company's stock-based awards granted in the three and nine-month periods ended March 27, 2005 was estimated using the following weighted-average assumptions:

	Three Months Ended		Nine Months Ended	
	Options	ESPP	Options	ESPP
	March 27, 2005	March 27, 2005	March 27, 2005	March 27, 2005
Expected life (years)	3.3	0.7	3.6	0.6
Expected stock price volatility	74%	74%	74%	74%
Risk-free interest rate	3.1%	2.9%	2.9%	2.9%

[Table of Contents](#)

Stock Options and Restricted Stock Units

The 1997 Stock Incentive Plan and the 1999 Stock Option Plan (Plans) provide for the grant of non-qualified stock-based awards to eligible employees, consultants and advisors, and non-employee directors of the Company and its subsidiaries. As of March 26, 2006, there were a total of 18,737,720 shares reserved for future issuance under these Plans.

The Company did not grant any stock options during the three and nine months ended March 26, 2006. The fair value of the Company's stock options issued prior to the adoption of SFAS No. 123R was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each award. The fair value of these stock options was estimated assuming no expected dividends and estimates of expected life, volatility and risk-free interest rate at the time of grant. Prior to the adoption of SFAS No. 123R, the Company used historical volatility as a basis for calculating expected volatility.

A summary of stock option activity under the Plans as of March 26, 2006 and changes during the nine months then ended is presented below:

<u>Options</u>	<u>Shares (in thousands)</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at June 26, 2005	15,702	\$ 18.92		
Granted	—	—		
Exercised	(7,692)	17.69		
Forfeited or expired	(259)	24.67		
Outstanding at March 26, 2006	<u>7,751</u>	<u>\$ 19.96</u>	<u>3.63</u>	<u>\$ 184,112</u>
Exercisable at March 26, 2006	<u>6,753</u>	<u>\$ 20.02</u>	<u>3.40</u>	<u>\$ 159,686</u>

The total intrinsic value of options exercised during the three and nine months ended March 26, 2006 was \$86.3 million and \$160.4 million, respectively. As of March 26, 2006, there was \$2.7 million of total unrecognized compensation cost related to nonvested stock options granted and outstanding; that cost is expected to be recognized through fiscal year 2009, with a weighted average remaining period of 0.4 years. Cash received from stock option exercises was \$61.6 million and \$135.7 million during the three and nine months ended March 26, 2006, respectively.

Table of Contents

A summary of the status of the Company's restricted stock units as of March 26, 2006, and changes during the nine months then ended is presented below:

Nonvested Restricted Stock Units	Shares (in thousands)	Weighted- Average Grant- Date Fair Value
Nonvested at June 26, 2005	63	\$ 22.10
Granted	847	30.48
Vested	(7)	22.10
Forfeited	(37)	29.04
Nonvested at March 26, 2006	<u>866</u>	\$ 30.00

The fair value of the Company's restricted stock units was calculated based upon the fair market value of the Company's stock at the date of grant. As of March 26, 2006, there was \$15.5 million of total unrecognized compensation cost related to nonvested restricted stock units granted; that cost is expected to be recognized over a remaining period of 1.5 years.

ESPP

The 1999 Employee Stock Purchase Plan (the 1999 ESPP) allows employees to designate a portion of their base compensation to be used to purchase the Company's Common Stock at a purchase price per share of the lower of 85% of the fair market value of the Company's Common Stock on the first or last day of the applicable offering period. Typically, each offering period lasts 12 months and comprises three interim purchase dates. As of March 26, 2006, there were a total of 10,993,828 shares reserved for issuance and 1,526,052 shares were available for issuance under the 1999 ESPP Plan.

ESPP awards were valued using the Black-Scholes model. ESPP awards for offering periods subsequent to the adoption of SFAS No. 123R were valued using the Black-Scholes model with expected volatility calculated using implied volatility. Prior to the adoption of SFAS No. 123R, the Company used historical volatility in deriving its expected volatility assumption. The Company determined, for purposes of valuing ESPP awards, that implied volatility provides a more accurate reflection of market conditions and is a better indicator of expected volatility than historical volatility. During the nine months ended March 26, 2006, ESPP was valued assuming no expected dividends and the following weighted-average assumptions:

Expected life (years)	0.68
Expected stock price volatility	34.5%
Risk-free interest rate	3.4%

As of March 26, 2006, there was \$1.9 million of total unrecognized compensation cost related to the ESPP that is expected to be recognized over a remaining period of five months.

[Table of Contents](#)**NOTE 3 — INVENTORIES**

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipments to Japanese customers are classified as inventory and carried at cost until title transfers. Inventories consist of the following:

	March 26, 2006	June 26, 2005
	(in thousands)	
Raw materials	\$ 64,180	\$ 51,251
Work-in-process	31,584	24,492
Finished goods	48,495	34,308
	<u>\$ 144,259</u>	<u>\$ 110,051</u>

NOTE 4 — PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	March 26, 2006	June 26, 2005
	(in thousands)	
Manufacturing, engineering and office equipment	\$ 101,040	\$ 98,947
Computer equipment and software	61,366	63,839
Leasehold improvements	38,116	41,574
Furniture and fixtures	5,519	5,045
	<u>206,041</u>	<u>209,405</u>
Less: accumulated depreciation and amortization	(162,138)	(168,323)
	<u>\$ 43,903</u>	<u>\$ 41,082</u>

NOTE 5 — ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	March 26, 2006	June 26, 2005
	(in thousands)	
Accrued compensation	\$ 102,966	\$ 96,006
Warranty reserves	32,194	35,802
Income and other taxes payable	57,583	30,518
Restructuring reserves	1,796	3,317
Other	86,460	63,564
	<u>\$ 280,999</u>	<u>\$ 229,207</u>

[Table of Contents](#)

NOTE 6 — OTHER INCOME, NET

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

	Three Months Ended		Nine Months Ended	
	March 26, 2006	March 27, 2005	March 26, 2006	March 27, 2005
	(in thousands)			
Interest income	\$ 10,715	\$ 4,812	\$ 25,812	\$ 10,394
Interest expense	(112)	(421)	(279)	(1,408)
Foreign exchange gains (losses)	(1,548)	(3,353)	1,604	(3,047)
Charitable contributions	(1,000)	—	(1,000)	(3,250)
Other, net	(227)	(395)	(513)	(740)
	<u>\$ 7,828</u>	<u>\$ 643</u>	<u>\$ 25,624</u>	<u>\$ 1,949</u>

NOTE 7 — 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 26, 2006	March 27, 2005	March 26, 2006	March 27, 2005
	(in thousands, except per share data)			
Numerator:				
Net income	<u>\$ 86,337</u>	<u>\$ 59,451</u>	<u>\$ 213,606</u>	<u>\$ 232,815</u>
Denominator:				
Basic average shares outstanding	140,122	139,967	137,703	137,566
Effect of potential dilutive securities:				
Employee stock plans and warrant(1)	4,724	4,789	5,595	4,796
Diluted average shares outstanding	<u>144,846</u>	<u>144,756</u>	<u>143,298</u>	<u>142,362</u>
Net income per share — Basic	<u>\$ 0.62</u>	<u>\$ 0.42</u>	<u>\$ 1.55</u>	<u>\$ 1.69</u>
Net income per share — Diluted	<u>\$ 0.60</u>	<u>\$ 0.41</u>	<u>\$ 1.49</u>	<u>\$ 1.64</u>

(1) The three months ended March 26, 2006 do not include any shares associated with a warrant that was exercised on December 7, 2005. The Company issued 878,829 shares of common stock pursuant to the cashless exercise of the warrant.

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

	Three Months Ended		Nine Months Ended	
	March 26, 2006	March 27, 2005	March 26, 2006	March 27, 2005
	(in thousands)			
Number of potential dilutive securities excluded	<u>216</u>	<u>955</u>	<u>333</u>	<u>3,915</u>

NOTE 8 — COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three Months Ended		Nine Months Ended	
	March 26, 2006	March 27, 2005	March 26, 2006	March 27, 2005
	(in thousands)			
Net income	\$ 86,337	\$ 59,451	\$ 213,606	\$ 232,815
Foreign currency translation adjustment	2,397	4,855	19	6,664
Unrealized gain (loss) on fair value of derivative financial instruments, net	2,109	(43)	6,847	(126)
Unrealized gain (loss) on financial instruments, net	(398)	(1,804)	(1,521)	(1,650)
Reclassification adjustment for loss (gain) included in earnings	(853)	188	(5,367)	407
Comprehensive income	<u>\$ 89,592</u>	<u>\$ 62,647</u>	<u>\$ 213,584</u>	<u>\$ 238,110</u>

The balance of accumulated other comprehensive loss is as follows:

	March 26, 2006	June 26, 2005
	(in thousands)	
Accumulated foreign currency translation adjustment	\$ (9,742)	\$ (9,761)
Accumulated unrealized gain on derivative financial instruments	2,043	815
Accumulated unrealized loss on financial instruments	(3,112)	(1,843)
Accumulated other comprehensive loss	<u>\$ (10,811)</u>	<u>\$ (10,789)</u>

NOTE 9 — GUARANTEES

The Company accounts for its guarantees in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45 “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (FIN No. 45). FIN No. 45 requires a company that is a guarantor to make specific disclosures about its obligations under certain guarantees that it has issued. FIN No. 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.

The Company leases several facilities at its headquarters location in Fremont, California. As part of the lease agreements, the Company has the option to purchase the remaining buildings at any time for a total purchase price for all remaining properties related to these leases of approximately \$85.0 million. The Company is required to guarantee the lessor a residual value on the properties of up to \$75.0 million at the end of the lease terms in fiscal year 2008 (in the event 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). The Company maintains cash collateral of \$85.0 million as part of the lease agreements as of March 26, 2006 in separate, specified interest-bearing accounts which is recorded as restricted cash in the Company’s Condensed 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 No. 46, “Consolidation of Variable Interest Entities” and is therefore not consolidated by Lam.

The Company has issued certain indemnifications to its lessors under some of its agreements. The Company has entered into certain insurance contracts which may limit the Company’s exposure to such indemnifications. As of March 26, 2006, 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.

Generally, the Company indemnifies, under pre-determined conditions and limitations, its customers for infringement of third-party intellectual property rights by the Company’s products or services. The Company seeks to limit its liability for such indemnity to an amount not to exceed the sales price of the products or services subject to the Company’s indemnification obligations. The

[Table of Contents](#)

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 were as follows:

	(in thousands)
Balance at June 27, 2004	\$ 28,401
Warranties issued during the period	32,383
Settlements made during the period	(15,547)
Expirations and change in liability for pre-existing warranties during the period	(6,666)
Balance at March 27, 2005	<u>\$ 38,571</u>
	(in thousands)
Balance at June 26, 2005	\$ 35,802
Warranties issued during the period	27,909
Settlements made during the period	(16,769)
Expirations and change in liability for pre-existing warranties during the period	(14,748)
Balance at March 26, 2006	<u>\$ 32,194</u>

NOTE 10 — 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 revenues, 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. There were no gains or losses during the three and nine months ended March 26, 2006 and March 27, 2005 associated with forecasted transactions that failed to occur. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to the derivative instrument and the hedged item. These include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows will be measured.

When derivative instruments are designated and qualify as effective cash flow hedges, the Company is able to defer changes in the fair value of the hedging instrument within accumulated other comprehensive income (loss) until the hedged exposure is realized. Consequently, with the exception of hedge ineffectiveness recognized, the Company's results of operations are not subject to

[Table of Contents](#)

fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that forecasted transactions would occur, the Company may not be able to account for its investments in derivative instruments as hedges. If this were to occur in a future period, changes in the fair values of the Company's derivative instruments would be recognized in operations without the benefits of offsets or deferrals of changes in fair value arising from hedge accounting treatment. At March 26, 2006, the Company expects to reclassify the entire amount of \$2.0 million 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 No. 133, these forward contracts are not designated accounting hedges. Therefore, the change in fair value of these derivatives is recorded into earnings as a component of other income and expense and offsets the change in fair value of the foreign currency denominated intercompany and trade receivables assuming the hedge contract fully covers the intercompany and trade receivable balances.

NOTE 11 — 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. In August, 2005, the Company announced that its Board of Directors had authorized the repurchase of an additional \$500 million of the Company's common stock from the public market or private purchase. The terms of the repurchase program permit the Company to repurchase shares through September 30, 2008. The Company plans to continue to execute the authorized repurchases. Share repurchases under the authorizations were as follows:

<u>Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Total Cost of Repurchase</u> <small>(in thousands, except per share data)</small>	<u>Average Price Paid Per Share</u>	<u>Amount Available For Repurchase Under the Plan</u>
As of June 26, 2005	5,855	\$ 167,081	\$ 28.54	\$ 82,919
Additional authorization of \$500 million				\$ 582,919
Quarter Ending September 25, 2005	2,644	78,690	29.76	\$ 504,229
Quarter Ending December 25, 2005	1,848	61,917	33.50	\$ 442,312
Quarter Ending March 26, 2006	1,698	73,602	43.36	\$ 368,710
Total	<u>12,045</u>	<u>\$ 381,290</u>	<u>\$ 31.66</u>	

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

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Certain, but not all, of the forward-looking statements in this report are specifically identified. The identification of certain statements as "forward-looking" is not intended to mean that other statements not specifically identified are not forward-looking. Forward-looking statements include, but are not limited to, statements that relate to 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 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 26, 2005, our quarterly reports on Form 10-Q, 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

For a full understanding of our financial position and results of operations for the three and nine months ended March 26, 2006, 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 26, 2005 and Form 10-Q for the three and six months ended December 25, 2005.

RESULTS OF OPERATIONS

Lam Research Corporation (Lam or the Company) is a major provider 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. 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 26, 2006 may not necessarily be indicative of future operating results.

[Table of Contents](#)

New Orders and Backlog

New orders recorded into backlog over the past seven quarters were approximately:

March 26, 2006	December 25, 2005	September 25, 2005	Three Months Ended			
			June 26, 2005	March 27, 2005	December 26, 2004	
			(in millions)			September 26, 2004
\$ 520	\$ 403	\$ 326	\$ 315	\$ 315	\$ 387	\$ 429

New orders recorded for the March 2006 quarter increased 29% sequentially. The balance of unshipped orders in backlog as of March 26, 2006 was approximately \$404 million. The basis for recording new orders is defined in our backlog policy. Our unshipped orders backlog includes orders for systems, spares, and services where written customer requests have been accepted and the delivery of products or provision of services is anticipated within the next 12 months. 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 "Backlog" in Part I Item 1, "Business" of our Annual Report on Form 10-K for the fiscal year ended June 26, 2005 for additional information on our backlog policy.

The regional geographic breakdown of new orders is as follows:

	Three Months Ended						
	March 26, 2006	December 25, 2005	September 25, 2005	June 26, 2005	March 27, 2005	December 26, 2004	September 26, 2004
North America	15%	13%	17%	9%	16%	14%	20%
Europe	15%	12%	15%	12%	19%	9%	19%
Asia Pacific	28%	29%	33%	35%	29%	25%	26%
Korea	29%	23%	13%	16%	14%	40%	15%
Japan	13%	23%	22%	28%	22%	12%	20%

Our business is cyclical in nature. After a prolonged two and one half year downturn, customer demand for our products improved in the September 2003 quarter. This positive trend in new orders continued through the September 2004 quarter, then declined and stabilized over the course of the March 2005 and June 2005 quarters. Since then, sequential growth in the quarters ended September 25, 2005, December 25, 2005 and March 26, 2006, was 3%, 24%, and 29%, respectively. We expect new orders to increase sequentially in the June 2006 quarter by 5% to 15%. This expectation is a forward-looking statement and actual results could differ materially as a result of factors such as those referred to on page 15 of this Quarterly Report on Form 10-Q.

Revenue

	Three Months Ended			Nine Months Ended	
	March 26, 2006	December 25, 2005	March 27, 2005	March 26, 2006	March 27, 2005
		(in thousands)		(in thousands)	
Revenue	\$ 437,423	\$ 358,245	\$ 349,337	\$ 1,116,575	\$ 1,148,686

Revenue for the March 2006 quarter slightly exceeded our expectations and increased 22% sequentially. The increase in revenues sequentially as well as the increase compared with the quarter ended March 27, 2005 reflects the growth pattern in shipments and the acceptance timelines of our customers. Revenues for the nine months ended March 26, 2006 were generally consistent compared with the same period in the prior year while the geographic breakdown of revenues, as outlined in the table below, shifted from the Asia Pacific region to Japan and Korea. Our deferred revenue balance was \$195.3 million as of March 26, 2006. The anticipated future revenue value of orders shipped from backlog to Japanese customers that are not recorded as deferred revenue was approximately \$90 million as of March 26, 2006, an increase of \$44 million from the quarter ended December 25, 2005. These shipments are classified as inventory, until title transfers, and carried at cost.

[Table of Contents](#)

The regional geographic breakdown of revenue is as follows:

	Three Months Ended			Nine Months Ended	
	March 26, 2006	December 25, 2005	March 27, 2005	March 26, 2006	March 27, 2005
North America	15%	13%	17%	14%	15%
Europe	13%	13%	13%	12%	11%
Asia Pacific	28%	29%	17%	29%	41%
Korea	29%	20%	35%	23%	18%
Japan	15%	25%	18%	22%	15%

The overall Asia region continues to represent a significant portion of our revenues as a substantial amount of the investment in worldwide capacity for semiconductor manufacturing occurs in this region.

Our current estimate for revenues for the June 2006 quarter ranges from \$490 million to \$510 million. This expectation is a forward-looking statement and actual results could differ materially as a result of factors such as those referred to on page 15 of this Quarterly Report on Form 10-Q.

Gross Margin

	Three Months Ended			Nine Months Ended	
	March 26, 2006	December 25, 2005	March 27, 2005	March 26, 2006	March 27, 2005
	(in thousands, except percentages)				
Gross Margin	\$ 219,654	\$ 177,510	\$ 174,570	\$ 553,243	\$ 588,233
Percent of total revenue	50.2%	49.5%	50.0%	49.5%	51.2%

Gross margin as a percent of revenue during the three months ended March 26, 2006 as compared to the December 2005 quarter increased on higher revenue due to improved utilization of factory and field resources, offset slightly by higher benefit costs, primarily related to increased payroll taxes, as well as product mix. Gross margin as a percent of revenue during the three months ended March 26, 2006 as compared to the same period in the prior year increased on higher revenues and now includes equity compensation of \$1.3 million in the March 2006 quarter versus \$0 in the quarter ended March 27, 2005. Gross margin as a percent of revenue during the nine months ended March 26, 2006 decreased due to changes in product mix, higher material content as a percentage of revenues and the increased equity-based compensation of \$3.8 million and higher benefit costs as noted above.

We expect gross margin as a percent of revenue will be 51% in the June 2006 quarter. This expectation is a forward-looking statement and actual results could differ materially as a result of factors such as those referred to on page 15 of this Quarterly Report on Form 10-Q.

Research and Development

	Three Months Ended			Nine Months Ended	
	March 26, 2006	December 25, 2005	March 27, 2005	March 26, 2006	March 27, 2005
	(in thousands, except percentages)				
Research & Development (R&D)	\$ 61,083	\$ 55,742	\$ 47,226	\$ 168,067	\$ 144,641
Percent of total revenue	14.0%	15.6%	13.5%	15.1%	12.6%

We currently invest significantly in research and development focused on leading-edge plasma etch, strip and clean product and market applications. The increase in R&D expenses during the March 2006 quarter compared to the December 2005 quarter reflects our planned investment level and included an increase of \$1 million in R&D supplies and outside services related to

[Table of Contents](#)

the construction and testing of new equipment prototypes and approximately \$3 million in increased salary and benefit costs for increases in headcount and employee base compensation as well as increased payroll taxes. The growth in R&D expenses during the quarter ended March 26, 2006 compared with the same period in the prior year is primarily due to approximately \$7 million in increased R&D supplies and outside services expense, \$2 million in increased salary and benefit costs for increases of headcount and employee base compensation and approximately \$2 million in increased equity-based compensation expense. The growth in R&D expenses during the nine months ended March 26, 2006 compared with the same period in the prior year is primarily due to approximately \$15 million in increased R&D supplies and outside services expense, approximately \$7 million of increased equity-based compensation expense and approximately \$1 million in increased salary and benefit costs of employee base compensation, partially offset approximately \$3 million by a reduction in incentive-based cash compensation.

Selling, General and Administrative

	Three Months Ended			Nine Months Ended	
	March 26, 2006	December 25, 2005	March 27, 2005	March 26, 2006	March 27, 2005
	(in thousands, except percentages)			(in thousands, except percentages)	
Selling, General & Administrative (SG&A)	\$ 48,303	\$ 44,859	\$ 34,518	\$ 138,317	\$ 120,920
Percent of total revenue	11.0%	12.5%	9.9%	12.4%	10.5%

The increase in SG&A expenses for the quarter ended March 26, 2006 as compared with the quarter ended December 25, 2005 included approximately \$4 million in salary and benefit costs for increases of headcount and employee base compensation and increased payroll taxes as well as an increase of \$3 million in incentive-based cash compensation primarily due to our long-term executive cash compensation program which commenced during the March quarter. The increase during the quarter ended March 26, 2006 as compared with the same period in the prior year was due to \$4 million of salary, benefits and incentive-based cash compensation, due to the factors noted above, and \$2 million of equity-based compensation. Additionally, the quarter ended March 27, 2005 includes the receipt of an \$8 million tax refund, net of fees incurred, issued by the California State Board of Equalization for previously paid sales and use tax. The increase in expenses for the nine months ended March 26, 2006 compared with the same period in the prior year is primarily due to equity-based compensation of \$7 million, increases in salaries and incentive-based cash compensation expense of \$3 million as noted above, and the March 2005 receipt of the \$8 million tax refund noted above.

We expect total operating expenses (R&D and SG&A) in the June 2006 quarter to be approximately \$114 million. This expectation is a forward-looking statement and actual results could differ materially as a result of factors such as those referred to on page 15 of this Quarterly Report on Form 10-Q.

Other Income, net

Other income, net consisted of the following:

	Three Months Ended			Nine Months Ended	
	March 26, 2006	December 25, 2005	March 27, 2005	March 26, 2006	March 27, 2005
	(in thousands)			(in thousands)	
Interest income	\$ 10,715	\$ 8,383	\$ 4,812	\$ 25,812	\$ 10,394
Interest expense	(112)	(88)	(421)	(279)	(1,408)
Foreign exchange gains (losses)	(1,548)	1,125	(3,353)	1,604	(3,047)
Charitable contributions	(1,000)	—	—	(1,000)	(3,250)
Other, net	(227)	(112)	(395)	(513)	(740)
	<u>\$ 7,828</u>	<u>\$ 9,308</u>	<u>\$ 643</u>	<u>\$ 25,624</u>	<u>\$ 1,949</u>

The increase in interest income during the quarter ended March 26, 2006 as compared with the quarter ended December 25, 2005, as well as during the three and nine months ended March 26, 2006 as compared with the same periods in the prior year, was due to increases in average cash and investment balances and in our investment portfolio's yields. The foreign exchange loss during the March 2006 quarter was primarily due to our intercompany balances with non-U.S. dollar functional subsidiaries where the dollar

Table of Contents

weakened against certain foreign currencies, primarily the Taiwan dollar. The gain for the nine months ended March 26, 2006 consisted of the loss for the March 2006 quarter stated above, offset by gains during the December 2005 and September 2005 quarters which were primarily due to our intercompany balances with non-U.S. dollar functional subsidiaries where the dollar strengthened against certain foreign currencies, primarily the Taiwan dollar. The foreign exchange losses for the three and nine months ended March 2005 were 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. A description of our exposure to foreign currency exchange rates can be found in the Risk Factors section of this Form 10-Q under the heading "Our Future Success Depends on International Sales and the Management of Global Operations."

Income Tax Expense

During the quarter ended March 26, 2006, our effective tax rate for fiscal year 2006, excluding the discrete event noted below, decreased to 20.7%. The reduction in our annual estimated effective tax rate during fiscal year 2006 as compared to fiscal year 2005 is due to the positive impact of changes in the jurisdictional mix of income, partially offset by the impact of the accounting for stock-based awards in accordance with SFAS No. 123R and the deductibility of those awards in some jurisdictions as well as the expiration of the research tax credit on December 31, 2005. Currently, Congress is discussing the extension and/or revision of the research tax credit, and no new law has been passed to date. Tax reserves are accounted for on the basis of current U.S. GAAP and related rules and guidance. Income tax expense for the three and nine months ended March 26, 2006 reflects a one time item recognized during the March 2006 quarter of \$7.4 million associated with the decision to repatriate up to \$150 million of foreign earnings under the provisions of the American Jobs Creation Act (AJCA). This has been accounted for as a discrete event. In addition to the item mentioned above, included in income tax expense for the nine months ended March 26, 2006 was a favorable tax adjustment of \$6.1 million recorded in the quarter ended December 25, 2005, related to foreign tax rulings on prior year tax returns filed.

Our effective tax rate is based on our current profitability outlook 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.

Deferred Income Taxes

We had gross deferred tax assets, related primarily to reserves and accruals that are not currently deductible, net operating losses, and tax credit carryforwards of \$215.4 million and \$248.0 million as of March 26, 2006 and June 26, 2005, respectively. The gross deferred tax assets were offset by deferred tax liabilities of \$22.2 million and a valuation allowance of \$106.0 million as of March 26, 2006 and June 26, 2005. The valuation allowance relates to stock option deductions, which will be recorded to additional paid in capital when realized.

The utilization of deferred tax assets reduced the balance to \$87.2 million as of March 26, 2006, a decrease of \$32.7 million during the nine months ended March 26, 2006. Other items affecting the net deferred tax assets include the revision to the estimated effective tax rate, incremental foreign tax credits and the true up of the deferred tax assets as a result of the filing of our U.S. income tax return for fiscal year ended June 26, 2005. 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 continue to evaluate the realizability of our deferred tax assets quarterly and will assess the need for additional valuation allowances, if any, in subsequent quarters.

The AJCA provides for a temporary 85% dividends received deduction on certain foreign earnings repatriated to the U.S. During the quarter ended March 26, 2006, we completed an initial evaluation to repatriate up to \$150 million during the fiscal year 2006. As a result of this decision, our income tax expense for the quarter ended March 26, 2006 included \$7.4 million of federal tax expense related to the planned repatriation. The effective tax rate on this repatriation was 4.9%.

We continue to evaluate opportunities under the AJCA to repatriate up to \$350 million of additional foreign earnings. This opportunity expires June 25, 2006. If we decide to repatriate additional earnings, we will record the additional income tax expense at the time of such determination.

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 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. Revenue 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. Transfer of title for shipments to Japanese customers generally occurs at time of customer acceptance.

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 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.

Table of Contents

Warranty: Typically, the sale of semiconductor capital equipment includes providing parts and service warranty to customers as part of the overall price of the system. We 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.

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.

Stock-Based Compensation — Employee Stock Purchase Plan and Employee Stock Plans: Beginning on June 27, 2005 we account for our employee stock purchase plan (ESPP) and stock plans under the provisions of SFAS No. 123R. SFAS No. 123R requires the recognition of the fair value of stock-based compensation in net income. The fair value of our restricted stock units was calculated based upon the fair market value of our stock at the date of grant. The fair value of our stock options and ESPP awards was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections in adopting and implementing SFAS No. 123R, including expected stock price volatility and the estimated life of each award. The fair value of stock-based awards is amortized over the vesting period of the award and we have elected to use the straight-line method for awards granted after the adoption of SFAS No. 123R and continue to use a graded vesting method for awards granted prior to the adoption of SFAS No. 123R. We make quarterly assessments of the adequacy of our tax credit pool to determine if there are any deficiencies which require recognition in our condensed consolidated statements of operations. Prior to the adoption of SFAS No. 123R, we accounted for our ESPP and stock option plans under the provisions of Accounting Principles Board (APB) Opinion No. 25 “Accounting For Stock Issued to Employees” (APB No. 25) and Financial Accounting Standards Board (FASB) Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25” and made 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”. Pro forma net income (loss) and pro forma net income (loss) per share disclosed in the footnotes to our condensed consolidated financial statements were estimated using a Black-Scholes option valuation model.

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.

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

We provide for income taxes on the basis of annual estimated effective income tax rates. Our estimated effective income tax rate reflects the underlying profitability of the Company, the level of R&D spending, the regions where profits are recorded and the respective tax rates imposed. We carefully monitor these factors and adjust the effective income tax rate, if necessary. If actual results differ from estimates, we could be required to record an additional valuation allowance on deferred tax assets or adjust our effective income tax rate, which could have a material impact on our business, results of operations, and financial condition.

[Table of Contents](#)

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax issue is highly judgmental. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial condition. We account for income tax contingencies in accordance with SFAS No. 5, "Accounting for Contingencies."

LIQUIDITY AND CAPITAL RESOURCES

As of March 26, 2006, we had \$1.1 billion in cash and cash equivalents, short-term investments, and restricted cash compared with \$894.3 million at June 26, 2005. This increase of \$182.1 million was primarily due to \$268.4 million of cash flows from operating activities during the nine months ended March 26, 2006. Share repurchases of \$214.2 million were partially offset by \$145.4 million of net proceeds from issuance of common stock related to employee stock-based plans.

Cash Flows From Operating Activities

Net cash provided by operating activities of \$268.4 million during the nine months ended March 26, 2006, consisted of (in millions):

Net income	\$ 213.6
Non-cash charges:	
Depreciation and amortization	16.2
Stock-based compensation	17.3
Other, net	1.1
Decrease in deferred tax assets	32.7
Change in other working capital accounts	(12.5)
	<u>\$ 268.4</u>

Significant changes in assets and liabilities during the nine months ended March 26, 2006, and included in the \$(12.5) million change in other working capital accounts above, include an increase in accounts receivable of \$88.6 million due to an increased volume of shipments, an increase in inventory of \$34.6 million primarily due to increased levels of shipments to Japanese customers that are classified as inventory, until title transfers, and carried at cost, and an increase in other current assets of \$17.3 million primarily due to an increase in VAT taxes receivable. These changes were partially offset by an increase in accounts payable of \$46.9 million, increases in accrued liabilities of \$51.8 million due primarily due to an increase in VAT and income taxes payable and an increase in deferred profit of \$29.6 million due to increased volume of shipments.

[Table of Contents](#)

Cash Flows from Investing Activities

Net cash provided by investing activities during the nine months ended March 26, 2006 was \$76.4 million and consisted of net sales of \$92.5 million of short-term investments to support our stock repurchase program, partially offset by capital expenditures of \$16.1 million which consisted primarily of engineering equipment.

Cash Flows from Financing Activities

Net cash used for financing activities during the nine months ended March 26, 2006 was \$68.9 million including stock repurchases of \$214.2 million partially offset by net proceeds of \$145.4 million from the issuance of our common stock related to employee stock-based plans.

During the nine months ended March 26, 2006, we repurchased approximately 6.2 million shares of common stock at a total price of \$214.2 million under Board authorized repurchase programs which run through September 30, 2008. As of March 26, 2006 the total amount remaining available for repurchase under Board authorizations was \$368.7 million. We expect to continue to repurchase shares consistent with the Board authorizations, the level of which will be determined by, including but not limited to, the needs of the business and the stock price and daily trading volumes of our stock.

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 26, 2006 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:

	<u>Operating Leases</u>	<u>Purchase Obligations</u>	<u>Restructuring Liabilities</u>	<u>Total</u>
	(in thousands)			
Payments due by period:				
Less than 1 year	\$ 13,813	\$ 136,454	\$ 1,796	\$ 152,063
1-3 years	86,702	54,679	329	141,710
4-5 years	943	2,490	—	3,433
Over 5 years	818	60	—	878
Total	<u>\$ 102,276</u>	<u>\$ 193,683</u>	<u>\$ 2,125</u>	<u>\$ 298,084</u>

[Table of Contents](#)

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 or to purchase the facilities. Certain of our facility leases provide for periodic rent increases based on the general rate of inflation.

Included in the operating leases 1-3 years section of the table above is \$75.0 million in guaranteed residual values for lease agreements relating to certain properties at our Fremont, California campus. As part of the lease agreements, we have the option to purchase the remaining buildings at any time for a total purchase price for all remaining properties related to these leases of approximately \$85.0 million. We are required to guarantee the lessor a residual value on the properties of up to \$75.0 million at the end of the lease terms in fiscal year 2008 (in the event 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). We maintain cash collateral of \$85.0 million as part of the lease agreements as of March 26, 2006 in separate, specified interest-bearing accounts which is recorded as restricted cash in our Condensed 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 No. 46, "Consolidation of Variable Interest Entities" and is therefore not consolidated by us.

The remaining balances primarily relate 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 26, 2006 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 storage locations and warehouses, are not reported as our inventory until title is transferred to us or our purchase obligation is determined. At March 26, 2006, vendor-owned inventories held at our locations and not reported as our inventory were approximately \$23.6 million.

Restructuring Liabilities

Our total restructuring reserves as of March 26, 2006 were \$2.1 million, which consists primarily of lease payments on vacated buildings. Through cash generated from operations, we expect \$1.8 million to be paid over the next twelve months and \$0.3 million to be paid between fiscal year 2007 and fiscal year 2011.

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;
- changes in our estimated effective tax rate;
- new or modified accounting regulations; and
- exchange rate fluctuations.

[Table of Contents](#)

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 \$5.7 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 is typically 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. Moreover, future technologies, processes or product developments may render our current product offerings obsolete, leaving us with non-competitive products, or obsolete inventory, or both.

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

We derive a substantial percentage of our revenues from a limited number of products, and we expect 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;
- export restrictions or other regulatory or legislative actions which limit our ability to sell those products to key customer or market segments;
- an improved version of products being offered by a competitor in the market we participate in;
- increased pressure from competitors that offer broader product lines;
- 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.

In addition, the fact that we offer a more limited product line creates the risk that our customers may view us as less important to their business than our competitors that offer additional products as well. This may impact our ability to maintain or expand our business with certain customers. Such product concentration may also subject us to additional risks associated with technology changes. Since we are primarily a provider of etch equipment, our business is affected by our customers' use of etching steps in their processes. Should technologies change so that the manufacture of semiconductor chips requires fewer etching steps, this might have a larger impact on our business than it would on the business of our less concentrated competitors.

We Have a Limited Number of Key Customers

Sales to a limited number of large customers constitute a significant portion of our overall revenue, new orders and profitability. 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.

Strategic Alliances May Have Negative Effects on our Business

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

Similarly, our customers may team with, or follow the lead of, educational or research institutions that establish processes for accomplishing various tasks or manufacturing steps. If those institutions utilize a competitor's equipment when they establish those processes, it is likely that customers will tend to use the same equipment in setting up their own manufacturing lines. These actions could adversely impact our market share and subsequent business.

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

[Table of Contents](#)

suppliers. However, several of our outsourced assembly suppliers are relatively 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, such as information technology, facilities management, and certain elements of our finance organization. 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 accounted for approximately 84% in fiscal year 2005, 82% in fiscal year 2004 and 72% in fiscal year 2003 of our total revenue. 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;
- economic and political conditions;
- changes in currency controls;
- differences in the enforcement of intellectual property and contract rights in varying jurisdictions;
- our 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;
- the need for technical support resources in different locations; and
- our ability to secure and retain qualified people for the operation of our business.

Certain international sales depend on our ability to obtain export licenses from the U.S. Government. Our failure or inability to obtain such licenses would substantially limit our markets and severely restrict our revenues. Many of the challenges noted above are applicable in China, which is a fast developing market for the semiconductor equipment industry and therefore an area of potential significant growth for our business. As the business volume between China and the rest of the world grows, there is inherent risk, based on the complex relationships between China, Taiwan, Japan, 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 region. A significant trade disruption in these areas could have a material, adverse impact on our future revenue and profits.

We are potentially exposed to adverse as well as beneficial movements in foreign currency exchange rates. The majority of our sales and expenses are denominated in U.S. dollars except for certain of our revenues in Japan that are denominated in Japanese Yen, certain of our spares and service contracts which are denominated in other currencies, and expenses related to our non-U.S. sales and support offices which are denominated in these countries' local currency.

We currently enter into foreign currency forward contracts to minimize the short-term impact of the exchange rate fluctuations on Japanese Yen-denominated assets and forecasted Japanese Yen-denominated revenue where we currently believe our primary exposure to currency rate fluctuation lies and will continue to enter into hedging transactions, for the purposes outlined, in the foreseeable future. However, these hedging transactions may not achieve their desired effect because differences between the actual timing of customer acceptances and our forecasts of those acceptances may leave us either over- or under-hedged on any given transaction. Moreover, by hedging our Yen-denominated assets with currency forward contracts, we may miss favorable currency trends, that would have been advantageous to us but for the hedges. Additionally, we currently do not enter into such forward contracts for currencies other than the Yen, and we therefore are subject to both favorable and unfavorable exchange rate fluctuations to the extent that we transact business (including intercompany transactions) in other currencies.

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

predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability. Further, if we elect to repatriate cash held outside the United States pursuant to the American Jobs Creation Act (AJCA) of 2004, in addition to the up to \$150 million we elected to repatriate in the quarter ended March 26, 2006, our tax rate may increase, even if by a lesser amount than without such legislation. Our decision to repatriate additional cash to take advantage of the AJCA must be made by the end of our current fiscal year which ends on June 25, 2006.

Changes in Accounting Standards for Stock-Based Compensation May Adversely Affect our Operating Results, Our Stock Price, and Our Competitiveness in the Employee Marketplace

The adoption of SFAS No. 123(R) required us to expense all stock-based compensation provided to employees and directors beginning with our quarter ending September 25, 2005. The environment for skilled employees that are knowledgeable about our products and services is a competitive one, and we believe that stock-based compensation is an important part of the overall compensation that we offer to attract and retain such employees. SFAS No. 123(R) will decrease our earnings based on its measure of the value of stock-based compensation. There is some risk that the design of our compensation plans is ineffective at balancing our profitability and employee retention objectives. Moreover, as we have adopted these rules before certain other companies in our industry, there may be, for some period of time, an appearance that our earnings are lower than those of comparable companies that have not yet adopted SFAS No. 123(R), which could have a negative effect on our stock price.

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 has historically been characterized by frequent periods of rapid change in demand that challenge our management to adjust spending and resources allocated to operating activities. During periods of rapid growth or decline in demand for our products and services, we face significant challenges in maintaining adequate financial and business controls, management processes, information systems and procedures and in training, managing, and appropriately sizing our supply chain, 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

Table of Contents

be adequate to support continued operations. Any such inability or inadequacy 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 experienced by other companies in our industry or forecasts by securities analysts;
- 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;
- liquidity of Lam;
- 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 fail-safe 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.

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. Moreover, although we seek to obtain insurance to protect us from claims and cover losses to our property, there is no guarantee that such insurance will fully indemnify us for any losses that we may incur.

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.

We Are Subject to the Internal Control Evaluation and Attestation Requirements of Section 404 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we were required, beginning with our fiscal year ended 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 each fiscal year. Furthermore, our independent registered public accounting firm (Firm) is 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 the end of each fiscal year. We have successfully completed our assessment and obtained our Firm's attestation as to the effectiveness of our internal control over financial reporting as of June 26, 2005. In future years, if we fail to timely complete this assessment, or if our 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 Must Confirm Its Independence in Order for Us to Meet Our Regulatory Reporting Obligations on a Timely Basis

Our independent registered public accounting firm communicates with us at least annually regarding any relationships between the Firm and Lam that, in the Firm's professional judgment, might have a bearing on the Firm's independence with respect to us. If, for whatever reason, our independent registered public accounting firm finds that it cannot confirm that it is independent of Lam 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 26, 2005.

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

Disclosure Controls and Procedures

As required by Exchange Act Rule 13a-15(b), as of March 26, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer, concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

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

Changes in Internal Control over Financial Reporting

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

Effectiveness of Controls

While we believe the present design of our disclosure controls and procedures and internal control over financial reporting is effective, future events affecting our business may cause us to modify our disclosure controls and procedures or internal control over financial reporting. The effectiveness of controls cannot be absolute because the cost to design and implement a control to identify errors or mitigate the risk of errors occurring should not outweigh the potential loss caused by the errors that would likely be detected by the control. Moreover, we believe that a control system cannot be guaranteed to be 100% effective all of the time. Accordingly, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

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

(c) 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 permit us to repurchase shares through September 30, 2007. In August, 2005, we announced that our Board of Directors had authorized the repurchase of an additional \$500 million of our common stock from the public market or private purchase. The terms of the repurchase program permit us to repurchase shares through September 30, 2008. We plan to continue to execute the authorized repurchases. Share repurchases under the authorizations were as follows:

<u>Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid per Share</u> (in thousands, except per share data)	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Amount Available For Repurchase Under the Plans or Programs</u>
As of December 25, 2005	10,347	\$ 29.74	10,347	\$ 442,312
December 26, 2005 - January 22, 2006	—	—	—	\$ 442,312
January 23, 2006 - February 19, 2006	—	—	—	\$ 442,312
February 20, 2006 - March 26, 2006	1,698	43.36	1,698	\$ 368,710
Total	<u>12,045</u>	<u>\$ 31.66</u>	<u>12,045</u>	

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

None.

ITEM 5. Other Information

a) The following disclosure would otherwise have been filed on Form 8-K under the heading "Item 1.01. Entry into a Material Definitive Agreement."

Establishment of Long Term Performance Goals Program for Cash Incentive Awards;

On February 16, 2006, the compensation committee of the board established a long term incentive program under the Company's 2004 Executive Incentive Plan pursuant to which cash awards may be paid to senior executives of the company and established two sets of performance goals for the program. One program is based on company performance during calendar year 2006 and awards under that program will vest and be paid in 2007, the other is based on company performance during calendar years 2006 and 2007 and awards will vest and be paid in 2008.

To the extent that awards that become payable exceed the maximum per participant dollar limitation under the Executive Incentive Plan, such amounts will not be paid under the Executive Incentive Plan but may be paid under a separate plan or arrangement not intended to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code of 1986.

Award amounts will be calculated quarterly based on Lam's operating profits and, with respect to awards that will be payable in 2008, the amounts so calculated may be enhanced based upon a stock price performance factor.

The following named executive officers were selected as participants eligible for award payments in 2007: Martin B. Anstice and Ernest E. Maddock. The following named executive officers were selected as participants eligible for award payments in 2008: Martin B. Anstice, Nicolas J. Bright, Ernest E. Maddock, and Stephen G. Newberry. Mr. Newberry's participation, target amount and performance metrics were approved by the independent members of the company's board of directors.

Individual target amounts were established for each participant. Actual award accruals may vary from 0 to approximately 2.5 times the target amounts depending upon the operating profit and stock performance metrics, as applicable. The compensation committee also retains discretion to reduce amounts that would otherwise be accrued under the programs.

[Table of Contents](#)

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 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)

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 1, 2006

LAM RESEARCH CORPORATION

(Registrant)

/s/ Martin B. Anstice

Martin B. Anstice

*Group Vice President, Finance, Chief Financial Officer and
Chief Accounting Officer*

EXHIBIT INDEX

Exhibit Number	Description
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)

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

I, Stephen G. Newberry, President 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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
 - d) 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 1, 2006

/s/ Stephen G. Newberry

Stephen G. Newberry

President and Chief Executive Officer

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

I, Martin B. Anstice, Group 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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
 - d) 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 1, 2006

/s/ Martin B. Anstice

Martin B. Anstice

*Group Vice President, Finance, Chief Financial
Officer and Chief Accounting Officer*

SECTION 1350 CERTIFICATION (PRINCIPAL EXECUTIVE OFFICER)

In connection with the Quarterly Report of Lam Research Corporation (the "Company") on Form 10-Q for the fiscal period ending March 26, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen G. Newberry, President 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 1, 2006

/s/ Stephen G. Newberry

Stephen G. Newberry
President and Chief Executive Officer

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 26, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin B. Anstice, Group 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 1, 2006

/s/ Martin B. Anstice

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