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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2003

or

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

For the transition period from ________to ________

Commission file number 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

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

4650 Cushing Parkway
Fremont, California 94538

(Address of principal executive offices including zip code)

(510) 572-0200

(Registrant's telephone number, including area code)

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

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

As of October 30, 2003, there were 130,491,309 shares of Registrant's Common Stock outstanding.

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LAM RESEARCH CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 28, 2003	June 29, 2003
	(unaudited)	(1)
ASSETS		
Cash and cash equivalents	$ 86,660	$ 167,343
Short-term investments	437,812	340,070
Accounts receivable, net	113,975	107,602
Inventories	102,274	112,016
Prepaid expenses and other current assets	18,165	12,679
Deferred income taxes	133,166	133,066
Total current assets	892,052	872,776
Property and equipment, net	43,371	48,771
Restricted cash	118,468	118,468
Deferred income taxes	87,032	87,032
Other assets	65,179	71,228
Total assets	$ 1,206,102	$1,198,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$ 37,542	$ 35,518
Accrued expenses and other current liabilities	132,697	131,144
Deferred profit	28,441	45,309
Current portion of long-term debt and other long-term liabilities	5,000	5,011
Total current liabilities	203,680	216,982
Long-term debt and other long-term liabilities less current portion	325,239	332,209
Total liabilities	528,919	549,191
Commitments and contingencies		
Preferred stock, at par value of $0.001 per share; authorized — 5,000 shares, none outstanding	—	—
Common stock, at par value of $0.001 per share; authorized — 400,000 shares; issued and outstanding — 129,580 shares at September 28, 2003 and 127,435 shares at June 29, 2003	130	127
Additional paid-in capital	577,408	560,273
Deferred stock-based compensation	—	(2,769)
Treasury stock, at cost, 2,270 shares at September 28, 2003 and 2,712 shares at June 29, 2003	(32,319)	(38,670)
Accumulated other comprehensive loss	(14,714)	(13,694)
Retained earnings	146,678	143,817
Total stockholders' equity	677,183	649,084
Total liabilities and stockholders' equity	$ 1,206,102	$1,198,275

(1) Derived from June 29, 2003 audited financial statements.

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended	
	September 28, 2003	September 29, 2002
Total revenue	$ 183,738	$ 197,520
Cost of goods sold	105,470	118,526
Cost of goods sold - restructuring charges (recoveries)	(250)	—
Total cost of goods sold	105,220	118,526
Gross margin	78,518	78,994
Research and development	38,526	41,382
Selling, general and administrative	33,993	33,359
Restructuring charges, net	1,062	—
Total operating expenses	73,581	74,741
Operating income	4,937	4,253
Loss on equity derivative contracts in Company stock	—	(16,407)
Other income (expense), net	1,444	(662)
Income (loss) before income taxes	6,381	(12,816)
Income tax expense	1,595	898
Net income (loss)	$ 4,786	$ (13,714)
Net income (loss) per share:		
Basic net income (loss) per share	$ 0.04	$ (0.11)
Diluted net income (loss) per share	$ 0.04	$ (0.11)
Number of shares used in per share calculations:		
Basic	128,351	126,931
Diluted	134,886	126,931

See Notes to Condensed Consolidated Financial Statements

LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended	
	September 28, 2003	September 29, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 4,786	$ (13,714)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Loss on equity derivative contracts in Company stock	—	16,407
Depreciation and amortization	8,462	11,011
Deferred income taxes	(100)	(5,190)
Amortization of deferred stock-based compensation	2,769	—
Restructuring charges, net	812	—
Other, net	1,151	564
Change in working capital accounts	(19,069)	(7,531)
Net cash provided by/(used for) operating activities	(1,189)	1,547
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,789)	(3,523)
Purchases of available-for-sale securities	(349,554)	(76,052)
Sales of available-for-sale securities	250,375	406,250
Restricted cash released upon settlement of equity derivatives in Company stock	—	9,076
Other, net	(65)	501
Net cash provided by/(used for) investing activities	(101,033)	336,252
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments and redemptions on long-term debt and capital lease obligations	(11)	(309,886)
Treasury stock purchases	—	(39,122)
Reissuances of treasury stock	4,426	4,753
Proceeds from issuance of common stock	17,136	2,794
Net cash provided by/ (used for) financing activities	21,551	(341,461)
Effect of exchange rate changes on cash	(12)	661
Net decrease in cash and cash equivalents	(80,683)	(3,001)
Cash and cash equivalents at beginning of period	167,343	172,431
Cash and cash equivalents at end of period	$ 86,660	$ 169,430

See Notes to Condensed Consolidated Financial Statements

LAM RESEARCH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 28, 2003
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Lam Research Corporation (the Company or Lam) for the fiscal year ended June 29, 2003, which are included in the Annual Report on Form 10-K, File Number 0-12933. The Company's Form 10-K, Forms 10-Q and Forms 8-K are available online at the Securities and Exchange Commission website on the Internet. The address of that site is http://www.sec.gov. The Company also posts the Form 10-K, Forms 10-Q and Forms 8-K on the corporate website at http://www.lamrc.com.

The Company's reporting period is a 52/53-week fiscal year. The Company's current fiscal year will end June 27, 2004 and includes 52 weeks. The quarter ended September 28, 2003 and the quarter ended September 29, 2002 both included 13 weeks.

Reclassifications: Certain amounts presented in the comparative financial statements for prior years have been reclassified to conform to the fiscal 2004 presentation.

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

Accounting for Revenue Arrangements with Multiple Deliverables: In November 2002, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" (EITF 00-21). EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple deliverables (products, services, and/or rights to use assets). The provisions of EITF 00-21 are applicable for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on the Company's financial position or results of operations.

Amendment of Statement 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), *on Derivative Instruments and Hedging Activities:* In April 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", (SFAS 149). SFAS 149 amends SFAS 133 for decisions made as part of the Derivatives Implementation Group (DIG) and changes financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. Specifically, SFAS 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS 133, (2) clarifies when a derivative contains a financing component that requires reporting as cash flows from financing activities in the statement of cash flows and (3) amends the definition of an "underlying" to correspond to the language in FIN 45. These changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that require separate accounting. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. However, the provisions of SFAS 149 that codify the previous decisions made by the DIG are already effective and should continue to be applied in accordance with their prior respective effective dates. The adoption of SFAS 149 did not have a material impact on the Company's financial position or results of operations.

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity: In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 represents a significant change in practice in the accounting for a number of financial instruments including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 generally requires liability classification for two broad classes of financial instruments: (1) instruments that represent, or are indexed to, an obligation to buy back the issuer's shares, regardless of whether the instrument is settled on a net-cash or gross physical basis, (2) obligations that can be settled in shares but meet one of the following conditions: (a) derive their value predominately from some other underlying, or (b) have a fixed value, or have a value to the counterparty that moves in the opposite direction as the issuer's shares. Many of the instruments within the scope of SFAS 150 were previously classified by the issuer as equity or temporary equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective the first quarter of fiscal 2004. The adoption of SFAS 150 did not have a material impact on the Company's financial position or results of operations.

NOTE 3 — STOCK-BASED COMPENSATION PLANS

The Company has adopted stock option plans that provide for the grant to key employees of various equity incentive awards, including options to purchase shares of Lam common stock. In addition, the plans permit the grant of nonstatutory stock options to paid consultants and employees, and provide for the automatic grant of nonstatutory stock options to outside directors. The Company also has an employee stock purchase plan (ESPP) that allows employees to purchase its common stock. The Company accounts for its stock option plans and stock purchase plan under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and Financial Accounting Standards Board Interpretation (FIN) 44, "Accounting for Certain Transactions Involving Stock Compensation - an Interpretation of APB Opinion No. 25" (FIN 44).

For pro forma purposes, the estimated fair value of the Company's stock-based awards is amortized over the options' vesting period (for options) and the respective four, six, twelve, or fifteen-month purchase periods (for stock purchases under the employee stock purchase plan). The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had accounted for its stock option and stock purchase plans under the fair value method of accounting under SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS 148):

	Three Months Ended	
	September 28, 2003	September 29, 2002
	(in thousands, except per share amounts)	
Net income (loss) — as reported	$ 4,786	$ (13,714)
Add: compensation expense recorded under APB 25, net of tax	2,077	—
Deduct: SFAS 123 compensation expense, net of tax	9,112	11,548
Net income (loss) — pro forma	$ (2,249)	$ (25,262)
Basic net income (loss) per share — as reported	$ 0.04	$ (0.11)
Basic net income (loss) per share — pro forma	(0.02)	(0.20)
Diluted net income (loss) per share — as reported	0.04	(0.11)
Diluted net income (loss) per share — pro forma	$ (0.02)	$ (0.20)

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS 123 and SFAS 148 as if the Company had accounted for its stock option and stock purchase plans under the fair value method of SFAS 123 and SFAS 148. The fair value of the Company's stock options and stock purchase plans was estimated using a Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and which are fully transferable and requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each option. The fair value of the Company's stock-based awards granted in the three-month periods of fiscal 2004 and fiscal 2003 was estimated assuming no expected dividends and the following weighted-average assumptions:

	Options		ESPP	
	Three Months Ended		Three Months Ended	
	September 28, 2003	September 29, 2002	September 28, 2003	September 29, 2002
Expected life (years)	3.3	1.7	0.50	0.25
Expected stock price volatility	75%	74%	75%	74%
Risk-free interest rate	1.8%	1.4%	1.8%	1.4%

NOTE 4 — INVENTORIES

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

	September 28, 2003	June 29, 2003
	(in thousands)	
Raw materials	$ 63,901	$ 67,259
Work-in-process	23,324	27,034
Finished goods	15,049	17,723
	$ 102,274	$112,016

NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 28, 2003	June 29, 2003
	(in thousands)	
Manufacturing and office equipment	$ 112,876	$ 114,609
Leasehold improvements	56,967	57,497
Furniture and fixtures	5,010	5,031
Computer equipment and software	67,047	67,624
	241,900	244,761
Less accumulated depreciation and amortization	(198,529)	(195,990)
	$ 43,371	$ 48,771

NOTE 6 — LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES

Long-term debt and other long-term liabilities consist of the following:

	September 28, 2003	June 29, 2003
	(in thousands)	
4% Convertible subordinated notes, interest payable semi-annually, principal due June, 2006	$ 314,726	$319,322
Restructuring, long-term portion	8,234	9,396
Patent settlement obligation, long-term portion	1,250	2,500
Other	1,029	991
	$ 325,239	$332,209

At September 28, 2003, obligations under debt financing consist of the Company's 4% Convertible Subordinated Notes (4% Notes). Details of the 4% Notes are:

Offering Date	May 2001
Offering Amount	$300.0 million
Maturity Date	June 1, 2006
Offering Expenses	$8.5 million incurred at the time of offering, ratably amortized to other expense over the term of the 4% Notes. Remaining unamortized balance of $4.5 million and $5.0 million at September 28, 2003 and June 29, 2003, respectively.
Interest Rate Terms	4% payable on June 1 and December 1 of each year, commencing December 1, 2001.
Conversion Rights	Convertible into Company Common Stock at any time prior to close of business on the maturity date, unless previously redeemed, at a conversion price of $44.93 per share subject to anti-dilution adjustments.
Redemption Terms	Redeemable at the Company's option, beginning June 5, 2004 with at least 20 days and no more than 60 days notice, at redemption prices starting at 101.0% and at diminishing prices thereafter, plus accrued interest.
Security	4% Notes are unsecured and subordinated in right of payment in full to all existing and future senior indebtedness of the Company.

The carrying value of the 4% Notes is adjusted to reflect changes in fair value attributable to changes in the benchmark interest rate in connection with the Company's fair value hedge accomplished through the interest rate swap agreement (the swap) discussed in Note 12. At September 28, 2003, the carrying value of the 4% Notes was $314.7 million as compared to $319.3 million at June 29, 2003. The corresponding gain was recorded in other income (expense), offset by a recorded loss of $4.7 million on the carrying value of the swap.

Under the terms of the agreement, the Company must provide a minimum of $6.0 million of collateral plus an amount equal to the unfavorable mark-to-market exposure (fair value) on the swap.

Therefore, the amount of cash collateral the Company will have to post in the future will fluctuate from quarter to quarter commensurate with the unfavorable mark-to-market exposure on the swap instrument. Generally, the required collateral will rise as interest rates rise. The Company had $6.0 million of collateral (reflected as restricted cash) recorded on the consolidated balance sheet related to this agreement as of September 28, 2003 and June 29, 2003.

The Company's 5% Convertible Subordinated Notes matured on September 2, 2002 and were repaid in full. This resulted in a cash outlay of approximately $309.8 million.

NOTE 7 — DEFERRED STOCK-BASED COMPENSATION

During the quarter ended December 29, 2002, the Company recorded $3.4 million of deferred stock-based compensation in stockholders' equity, which was offset by a corresponding entry to additional paid-in capital in stockholders' equity, in connection with the modification of terms of a fixed stock option award previously issued to the Company's Chairman and Chief Executive Officer. The modification extended the contractual life of the stock option for a period of three years and modified the vesting requirements. However, no changes were made to either the number of shares of the Company's stock subject to the option, or the option's exercise price. Accordingly, the modification resulted in the remeasurement of compensation expense based on the option's intrinsic value on the date of modification in accordance with the provisions of APB 25 and FIN 44. The deferred stock-based compensation balance of $3.4 million was being amortized ratably over the vesting period of the modified options, or 16 quarters. Under the terms of this modification, if the Nasdaq National Market closing price of the Company's common stock reached or exceeded $20.00 per share, all unvested shares would immediately vest and become exercisable. In the event of such accelerated vesting, all remaining deferred compensation would immediately be recognized as compensation expense.

During the quarter ended September 28, 2003, the Company added a second condition to the accelerated vesting provision contained in this stock option award. The second condition required the Company's fiscal quarter net income, based on U.S. generally accepted accounting principles, to exceed $2.5 million after deducting any incremental amortization expense that resulted from acceleration of these same options. The two conditions need not be met simultaneously nor in a specific order. Both conditions were met during the quarter ended September 28, 2003 and, as a result, all options under this arrangement were immediately vested in full. Accordingly, the Company recognized the remaining deferred stock-based compensation balance of $2.8 million as compensation expense within selling, general and administrative expenses in the Company's condensed consolidated statement of operations for the three months ended September 28, 2003.

NOTE 8 — OTHER INCOME (EXPENSE), NET

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

	Three Months Ended	
	September 28, 2003	September 29, 2002
	(in thousands)	
Interest income	$ 2,712	$ 5,715
Loss on equity derivative contracts	—	(16,407)
Interest expense	(586)	(3,670)
Foreign exchange loss	(122)	(969)
Debt issue cost amortization	(425)	(830)
Other, net	(135)	(908)
	$ 1,444	$ (17,069)

NOTE 9 — NET INCOME (LOSS) PER SHARE

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

	Three Months Ended	
	September 28, 2003	September 29, 2002
	(in thousands, except per share data)	
Numerator:		
Net income (loss)	$ 4,786	$ (13,714)
Denominator:		
Basic average shares outstanding	128,351	126,931
Effect of potential dilutive securities:		
Employee stock plans and warrant	6,535	—
Diluted average shares outstanding	134,886	126,931
Net income (loss) per share - Basic	$ 0.04	$ (0.11)
Net income (loss) per share - Diluted	$ 0.04	$ (0.11)
Antidilutive securities excluded from the calculation (1)	4,980	20,615

(1) For purposes of computing diluted net income (loss) per share, weighted-average potential common shares do not include stock options whose exercise prices exceed the average market value of the Company's common stock for the period. Additionally, weighted-average potential common shares for the three months ended September 29, 2002 do not include the outstanding warrant as the related exercise price exceeded the average market value of the Company's common stock for the period.

For the three months ended September 28, 2003, diluted net income per share includes the assumed exercise of employee stock options and the outstanding warrant. The assumed conversion of the 4% Notes into 6.7 million shares was antidilutive and therefore excluded from the computation of diluted net income per share for the three months ended September 28, 2003. Options and convertible securities were outstanding during the three months ended September 29, 2002, but approximately 17.6 million potential common shares were excluded from the computation of diluted net loss per common share for the three months ended September 29, 2002 because the effect would have been antidilutive.

NOTE 10 — COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are as follows:

	Three Months Ended	
	September 28, 2003	September 29, 2002
	(in thousands)	
Net income (loss)	$ 4,786	$ (13,714)
Foreign currency translation adjustment	(315)	(2,190)
Unrealized loss on fair value of derivative financial instruments, net	(148)	(785)
Unrealized loss on financial instruments, net	(557)	—
Comprehensive income (loss)	$ 3,766	$ (16,689)

Accumulated other comprehensive loss is as follows:

	September 28, 2003	June 29, 2003
	(in thousands)	
Accumulated foreign currency translation adjustment	$ (15,468)	$(15,153)
Accumulated unrealized gain on derivative financial instruments	145	293
Accumulated unrealized gain on financial instruments	609	1,166
Accumulated other comprehensive loss	$ (14,714)	$(13,694)

NOTE 11 — GUARANTEES

In November 2002, the FASB issued “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (FIN 45). FIN 45 requires a company that is a guarantor to make specific disclosures about its obligations under certain guarantees that it has issued. FIN 45 also requires a company (the Guarantor) to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee.

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

The Company has issued certain indemnifications to its lessors under certain of its operating lease agreements, such as, indemnification for certain environmental matters. The Company has entered into certain insurance contracts to minimize its exposure related to such indemnifications. As of September 28, 2003, the Company has not recorded any liability on its financial statements in connection with these indemnifications, as the Company does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

The Company has agreements with two financial institutions that guarantee payment of its Japanese subsidiary's overdraft protection obligation. The maximum potential amount of future payments the Company could be required to make under these agreements at September 28, 2003, is approximately $5.1 million, the amount available under the overdraft protection agreement. As of September 28, 2003, the Company's Japanese subsidiary did not owe any amounts under this agreement. The Company has not recorded any liability in connection with these guarantees, as the Company does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

The Company has an agreement with a financial institution to sell to the institution certain U.S. Dollar-denominated receivables generated from the sale of its systems, subject to recourse provisions. The Company insures these sold receivables for approximately 90% of their value and guarantees payment of the remaining uninsured receivable value in the event that the payment obligation is not satisfied. Based on historical payment patterns, the Company has experienced negligible default on payment obligations and therefore, believes the risk of loss from default is minimal. The terms of these guarantees are from 90 days past the due date of the receivable, until collected. At September 28, 2003 the maximum potential amount of future payments the Company could be required to make under this agreement is approximately $2.2 million. As of September 28, 2003, the Company has not recorded any liability in connection with these guarantees, as the Company does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

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

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

Changes in the Company's product warranty reserves during the three months ended September 28, 2003, were as follows:

	(in thousands)
Balance at June 29, 2003	$ 16,985
Warranties issued during the period	2,445
Settlements made during the period	(4,773)
Change in liability for pre-existing warranties during the period, including expirations	(1,085)
Balance at September 28, 2003	$ 13,572

NOTE 12 — DERIVATIVE INSTRUMENTS AND HEDGING

The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values. The Company has acquired and holds derivative financial instruments to hedge a variety of risks and exposures including interest rate fluctuation risks associated with its long-term debt, foreign currency exchange rate fluctuations on the value of expected cash flows from forecasted revenue transactions denominated in Japanese Yen and foreign currency denominated assets. Changes in the fair value of derivatives that are not designated or that do not qualify as hedges under SFAS 133 are recognized in earnings immediately. The Company does not use derivatives for trading purposes.

The Company has a policy to minimize, where possible and practical, the impact of interest rate exposure associated with its interest rate sensitive investments and debt obligations. To limit the impact relating to interest rate exposure associated with its fixed rate 4% Notes, the Company is a party to an interest rate swap agreement (the swap) with a notional amount of $300.0 million. Under the terms of the swap, the Company exchanges the fixed interest payments on its 4% Notes for variable interest payments based on the London Interbank Offered Rate (LIBOR). The swap is accounted for as a fair value hedge under the provisions of SFAS 133. Fluctuations in the fair value of the 4% Notes, resulting from changes in the LIBOR interest rate sensitive component, are recorded in earnings, and offset by changes in the fair value of the swap, which are also recorded in earnings.

The carrying value of the 4% Notes included in long-term debt and other long-term liabilities decreased by approximately $4.6 million for the three-month period ended September 28, 2003 and increased by approximately $12.7 million for the three-month period ended September 29, 2002. The fair value of the swap, included in long-term assets, decreased by approximately $4.7 million during the three months ended September 28, 2003 and increased by approximately $12.6 million during the three months ended September 29, 2002, with the corresponding gains and losses for the three-month periods recorded in other income (expense), net. For the three-month periods ended September 28, 2003, and September 29, 2002, the Company recognized net losses of $0.1 million in other income (expense), net resulting from hedge ineffectiveness related to differences in changes in the fair value of the swap and changes in the fair value of the 4% Notes.

The Company's policy is to attempt to minimize short-term business exposure to foreign exchange risks using the most effective and efficient methods 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 rate fluctuations. To protect against the reduction in value of forecasted Japanese Yen-denominated cash flows resulting from sales in Japanese Yen, the Company will, at times, institute foreign currency cash flow hedging programs. The Company has previously entered into foreign currency forward exchange contracts that generally expired within 12 months, and no later than 24 months. These foreign currency forward exchange contracts were designated as cash flow hedges and 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 was recognized.

For the three months ended September 28, 2003 and September 29, 2002, the Company recognized net gains of $0.3 million and $0.1 million respectively, for cash flow hedges that had been discontinued, because the original forecasted transactions did not or were not expected to occur. The losses and gains are recorded in other income (expense) in the condensed consolidated statements of operations. As of September 28, 2003, the Company expects to reclassify the balance of deferred hedging gains and losses, net, included in accumulated other comprehensive income (loss) 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 contracts to hedge the gains and losses generated by the remeasurement of Japanese Yen-denominated intercompany receivables. Under SFAS 133, these forward contracts are not designated hedges. Therefore, the change in fair value of these derivatives is recorded into earnings as a component of other income (expense) and offsets the change in fair value of the foreign currency denominated intercompany receivables.

NOTE 13 — RESTRUCTURING ACTIVITIES

The Company has developed programs and incurred restructuring charges in response to the high level of volatility and, at times, depressed levels of capital investment by the semiconductor industry. The Company systematically reviews its revenue outlook and forecasts and assesses their impact on required employment levels, facilities utilization, and outsourcing activities scope. Based on these evaluations, senior management of the Company committed to cost reduction and exit activities in the quarters ended September 28, 2003 (the September 2003 Plan), June 29, 2003 (the June 2003 Plan), March 30, 2003 (the March 2003 Plan), December 29, 2002 (the December 2002 Plan), December 30, 2001 (the December 2001 Plan), and September 23, 2001 (the September 2001 Plan). Prior to the end of each quarter noted above, management with the proper level of authority approved specific actions under the respective Plan and communicated the severance packages to potentially impacted employees in enough detail such that the employees could determine their type and amount of benefit. The termination of the affected employees occurred as soon as practical after the restructuring plans were announced. The amount of remaining future lease payments for facilities the Company ceased to use and included in the restructuring charges are based on management’s estimates using known prevailing real estate market conditions at that time. Leasehold improvements relating to the vacated buildings were written off, as these items will have no future economic benefit to the Company and have been abandoned. The Company distinguishes regular operating cost management activities from restructuring activities. Accounting for restructuring activities requires an evaluation of formally committed and approved plans. Restructuring activities have comparatively greater strategic significance and materiality and may involve exit activities, whereas regular cost containment activities are more tactical in nature and are rarely characterized by formal and integrated action plans or exiting a particular product, facility, or service.

As of September 28, 2003, the overall restructuring reserve balance consisted of approximately $0.6 million related to restructurings implemented during fiscal 2004, $9.4 million related to restructurings implemented during fiscal 2003, and $7.4 million related to restructurings implemented during fiscal 2002. These same balances consisted of approximately $0.7 million of severance and benefits-related costs anticipated to be utilized by the end of the 2003 calendar year and $16.7 million primarily related to lease payments on vacated buildings anticipated to be utilized by the end of fiscal year 2008.

Fiscal 2004 Restructuring Activities

The Company recorded a net restructuring charge during the quarter ended September 28, 2003, of approximately $0.8 million, consisting of severance and benefits for involuntarily terminated employees of $0.8 million, charges for the present value of remaining lease payments on vacated facilities of $0.5 million, and the write-off of related leasehold improvements of $0.1 million. These charges were partially offset by recovery of $0.3 million due to lower than previously estimated employee severance and benefits costs and $0.3 million of recovered inventory from unanticipated sales to the Company’s installed base of certain portions of inventory previously written off as part of the Company’s September 2001 restructuring.

September 2003 Plan

The Company began carrying out the announced restructuring activities prior to September 28, 2003, by reducing its workforce primarily in North America and Europe by approximately 20 people and by vacating selected facilities located in North America and Asia deemed to be no longer necessary to the Company’s operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America. The Company recorded a restructuring charge during the quarter ended September 28, 2003 of approximately $1.2 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements.

Below is a table summarizing activity relating to the September 2003 Plan:

	Severance and Benefits	Facilities	Abandoned Fixed Assets	Total
		(in thousands)		
September 2003 provision	$ 713	$ 394	$ 123	$ 1,230
Cash payments	(462)	(61)	—	(523)
Non-cash charges	—	—	(123)	(123)
Balance at September 28, 2003	$ 251	$ 333	$ —	$ 584

Fiscal 2003 Restructuring Activities

June 2003 Plan

The Company began carrying out the announced restructuring activities prior to June 29, 2003, by reducing its workforce in North America, Europe, and Asia by approximately 30 people and by vacating selected sales and administrative facilities located in North America, Europe, and Asia deemed to be no longer required for the Company's operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America. The Company recorded a restructuring charge during the quarter ended June 29, 2003, of approximately $7.6 million, consisting of severance and benefits for involuntarily terminated employees, charges for the present value of remaining lease payments on vacated facilities, a loss on the fair value of a vacated facility and the write-off of related leasehold improvements. In June 2003, a lease covering one of the Company's vacated facilities at its Fremont, California campus was amended, combined, restated, and transferred to a new lessor under a single lease structure. At the time of the amendment, the leased facility's fair value was less than its original cost by approximately $1.0 million. Accordingly, this amount was recorded as a loss on the fair value of the vacated facility and included in the $6.7 million facility-related restructuring charge.

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Below is a table summarizing activity relating to the June 2003 Plan:

	Severance and Benefits	Facilities	Abandoned Fixed Assets	Total
		(in thousands)		
June 2003 Provision	$ 783	$ 6,656	$ 210	$ 7,649
Cash payments	(366)	(388)	—	(754)
Non-cash charges	—	—	(210)	(210)
Balance at June 29, 2003	417	6,268	—	6,685
Cash payments	(374)	(375)	—	(749)
Reversal of restructuring charges	(23)	—	—	(23)
Additional restructuring charges	—	84	—	84
Balance at September 28, 2003	$ 20	$ 5,977	$ —	$ 5,997

March 2003 Plan

The Company began carrying out these restructuring activities prior to March 30, 2003, by reducing its workforce in North America and Europe by approximately 50 people and by vacating selected sales and administrative facilities located in North America deemed to be no longer required for the Company's operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America. The Company recorded a restructuring charge during the quarter ended March 30, 2003, of approximately $4.7 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements. During the quarter ended September 28, 2003, $0.3 million were recovered due to lower than previously estimated employee severance and benefits costs.

Below is a table summarizing activity relating to the March 2003 Plan:

	Severance and Benefits	Facilities	Abandoned Fixed Assets	Total
		(in thousands)		
March 2003 Provision	$ 1,658	$ 2,913	$ 171	$ 4,742
Cash payments	(855)	(757)	—	(1,612)
Non-cash charges	(228)	—	(171)	(399)
Balance at June 29, 2003	575	2,156	—	2,731
Cash payments	(140)	(250)	—	(390)
Reversal of restructuring charges	(280)	—	—	(280)
Balance at September 28, 2003	$ 155	$ 1,906	$ —	$ 2,061

December 2002 Plan

The Company began carrying out these restructuring activities prior to December 29, 2002 by reducing its workforce in North America, Europe, and Asia by approximately 120 employees and by vacating selected sales and administrative facilities located in North America, Europe and Asia deemed to be no longer necessary for the Company's operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with approximately 65% from North America and approximately 35% from Asia and Europe locations. The Company recorded a restructuring charge of $5.7 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements.

Below is a table summarizing activity relating to the December 2002 Plan:

	Severance and Benefits	Facilities	Abandoned Fixed Assets	Total
		(in thousands)		
December 2002 Provision	$ 3,257	$ 1,945	$ 474	$ 5,676
Cash payments	(3,112)	(487)	—	(3,599)
Non-cash charges	—	(49)	(474)	(523)
Balance at June 29, 2003	145	1,409	—	1,554
Cash payments	(77)	(107)	—	(184)
Balance at September 28, 2003	$ 68	$ 1,302	$ —	$ 1,370

Fiscal 2002 Restructuring Activities

December 2001 Plan

During the second fiscal quarter of 2002, the Company began implementing restructuring activities which included reducing its workforce by approximately 470 employees in North America, Europe, and Asia, vacating selected administrative and warehouse facilities at the Company's Fremont, California campus deemed to be no longer required for the Company's operations, and the closure of certain offices in Asia. The employees included in the Plan were from a broad range of functions and at multiple levels throughout the organization with approximately 80% from North America and approximately 20% from Asia and Europe locations. The Company recorded a restructuring charge of $33.8 million relating to severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities and the write-off of related leasehold improvements and fixed assets.

During fiscal 2003, the Company recovered approximately $3.8 million of restructuring charges originally accrued under the December 2001 Plan, $2.1 million for benefits offered that were not utilized by the terminated employees and approximately $1.7 million related to a revision to the net amount of lease payments remaining on the vacated facilities. In addition, during fiscal 2003, the Company recorded approximately $3.0 million of additional restructuring charges of which $2.5 million were due to revisions the Company made in sublease assumptions for two of its vacated buildings in Fremont, California and approximately $0.1 million due to additional facility restoration costs. Additionally, the Company revised its estimates related to employee termination costs and recorded $0.4 million of additional expenses.

September 2001 Plan

During the first quarter of fiscal 2002, the Company began implementing restructuring activities which included a reduction of approximately 550 employees in North America, Europe and Asia, vacating selected facilities at the Company's headquarters in Fremont, California deemed to be no longer required for the Company's operations and discontinuance of the manufacture of specific products within the Company's etch product lines. The employees were from a broad range of functions and at multiple levels of the organization, with approximately 85% from North America and 15% from Asia and Europe locations. The Company recorded a restructuring charge of $21.0 million which included severance and benefits for involuntarily terminated employees, charges for remaining lease payments, write-offs of leasehold improvements on vacated facilities, and inventory write-downs. The discontinued inventory charges of approximately $7.6 million related to the Company's decision to discontinue manufacture of specific products within the Company's etch product lines. The Company recovered approximately $0.3 million during the quarter ended September 28, 2003 and $1.7 million during fiscal years 2003 and 2002, respectively, from unanticipated subsequent sales to the Company's installed base of certain portions of this inventory. In addition, in fiscal 2003 and 2002, the Company physically disposed of approximately $2.7 million of this inventory. The Company expects to complete disposition of the remaining quantities of this inventory by the end of calendar year 2003.

During fiscal 2002, the Company recovered approximately $1.0 million of the September 2001 Plan charge due to lower than estimated employee termination costs of $0.7 million and lower than planned expenses relating to a vacated facility lease of $0.3 million. During fiscal 2003, approximately $0.9 million was recovered due to lower employee severance and termination costs of $0.6 million and actual expenses being lower than estimates for vacated facility leases of $0.3 million. In addition, in the second quarter of fiscal 2003, the Company recorded additional charges for the September 2001 Plan based on a revised estimate of the length of time required to sublease one of its vacated buildings in Fremont, California. Based on prevailing market conditions, the Company extended the accrual for lease payments to the end of the lease in June 2004 and recorded an additional $0.6 million expense.

Fiscal 2001 Restructuring Plans

During the second quarter of fiscal 2003, the Company completed the remaining elements of its restructuring activities under the June 2001 Plan. An additional $1.1 million of restructuring charges was recovered due to lower than estimated employee termination costs.

NOTE 14 — EQUITY DERIVATIVE CONTRACTS IN COMPANY STOCK

The Company’s equity derivatives included certain put and call options indexed to its own stock that were acquired in June 1999. Application of EITF 00-19, “Determination of Whether Share Settlement is Within the Control of the Issuer”, for the purposes of applying EITF Issue No. 96-13, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock”, required these previously purchased instruments to be recorded at their fair value at the end of each reporting period, commencing in June 2001, with the change in fair value recorded as a gain or loss in the Company’s statement of operations. The Company’s equity derivatives were collateralized by restricted cash of $9.1 million and could not be settled in unregistered shares.

On August 23, 2002, the Company settled its outstanding equity derivative contracts by purchasing approximately 3.5 million shares of Lam common stock at an average price of $11.19 per share for a total cash payment of $39.1 million. By settling the equity derivative contracts, the Company was able to repurchase the shares recording a life to date gain of $8.4 million ($2.41 per share) from their then market value. As a result of this transaction, the Company recognized an increase in treasury stock of $47.6 million and a $16.4 million reduction in the equity derivative contracts’ fair value which was recorded as a non-taxable loss in other income (expense), net during the three months ended September 29, 2002.

NOTE 15 — LITIGATION

See Part II, item 1 for discussion of litigation.

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

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements that relate to our future revenue, product development, demand, acceptance and market share, competitiveness, gross margins, levels of research and development (R&D), outsourcing plans and operating expenses, our management's plans and objectives for our current and future operations, the effects of our restructurings and consolidation of operations and facilities, our ability to complete contemplated restructurings or consolidations on time or within anticipated costs, the levels of customer spending or R&D activities, general economic conditions and the sufficiency of financial resources to support future operations, and capital expenditures. Such statements are based on current expectations and are subject to risks, uncertainties, and changes in condition, significance, value and effect, including those discussed below under the heading "Risk Factors" within the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other documents we file from time to time with the Securities and Exchange Commission, such as our last filed Annual Report on Form 10-K for the fiscal year ended June 29, 2003 and our current reports on Form 8-K. Such risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed herein and in ways not readily foreseeable. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on information currently and reasonably known to us. We undertake no obligation to release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances, which occur after the date hereof or to reflect the occurrence or effect of anticipated or unanticipated events.

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

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes presented in this Form 10-Q and the financial statements and notes in our last filed Annual Report on Form 10-K for a full understanding of our financial position and results of operations for the three-month period ended September 28, 2003.

RESULTS OF OPERATIONS

Lam Research Corporation (Lam or the Company) is a major supplier of semiconductor capital equipment. Our product offerings include single-wafer plasma etch systems with a wide range of applications, Chemical Mechanical Planarization (CMP) and CMP wafer cleaning systems, and an array of services designed to optimize the utilization of these systems by our customers.

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Over the past three business cycles, the severity of these fluctuations has increased, and today's leading indicators of changes in customer investment patterns may not be any more reliable than in prior years. Demand for our equipment can fluctuate significantly from period to period as a result of various factors, including, but not limited to, economic conditions, supply, demand, and price 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 months ended September 28, 2003 may not necessarily be indicative of future operating results.

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Revenue

	Three Months Ended September 28, 2003	Three Months Ended September 29, 2002	Percent Change
	(in thousands)		
Revenue	$ 183,738	$ 197,520	(7.0%)

The decrease in revenues compared to a year ago further reinforces our prior year commentary, that the revenue level of the quarter ended September 29, 2002 reflected a short-lived increase in demand for wafer fabrication equipment. Since that time, our quarterly revenues have remained relatively stable and our current estimate for the quarter ended December 28, 2003 is for revenues to be around the same level as the quarter ended September 28, 2003. Semiconductor manufacturers have selectively invested in leading-edge technology equipment through fiscal 2003 and into fiscal 2004 and there are early signs that demand for wafer processing equipment may be improving.

Based on the guidance provided by Securities and Exchange Commission Staff Accounting Bulletin No. 101 (SAB 101), “Revenue Recognition in Financial Statements”, we generally recognize new systems revenue when we receive customer acceptance or are otherwise released from our customer acceptance obligations. Refer to our discussion of “Critical Accounting Policies” within this document for additional information about our revenue recognition policy. Where acceptance provisions exist, the fiscal period in which we are able to recognize systems revenue is typically subject to the length of time that our customers require to evaluate the performance of our equipment to agreed standards and specifications, after system installation. Systems revenue recognition generally occurs from two to seven months after the date of shipment. Spares and upgrades revenues generally are recognized on the date of shipment, and service revenues are recognized generally upon performance of the activities requested by the customer, including training and extended warranty support.

Regional geographic breakdown of revenue is as follows:

	Three months ended September 28, 2003	Three months ended September 29, 2002
North America	26%	23%
Europe	25%	18%
Asia Pacific	42%	48%
Japan	7%	11%

Gross Margin

	Three Months Ended September 28, 2003	Three Months Ended September 29, 2002	Percent Change
	(dollars in thousands)		
Gross Margin	$ 78,518	$ 78,994	(0.6%)
Percent of total revenue	42.7%	40.0%	

The increase in gross margin as a percent of total revenue of 2.7 percentage points during the three months ended September 28, 2003 as compared to the prior year was accomplished despite a 7 percent reduction in revenue over the same periods. The improved gross margin as a percent of total revenue is primarily due to lower material, installation and warranty costs. We believe that our focus on our systems design, which promotes more efficient purchasing and installation processes, combined with our strategy to outsource manufacturing assembly has contributed to this gross margin progression and lowered our overall breakeven point to approximately $180 million in quarterly revenues.

Our current outlook for the quarter ending December 28, 2003 is for relatively flat gross margin as a percentage of revenues compared to the quarter ended September 28, 2003.

Research and Development

	Three Months Ended September 28, 2003	Three Months Ended September 29, 2002	Percent Change
	(dollars in thousands)		
Research & Development	$ 38,526	$ 41,382	(6.9%)
Percent of total revenue	21.0%	21.0%	

We sustained significant levels of investment in research and development, illustrating our focus on maintaining our competitive product portfolio. Accordingly, we devote a significant portion of our personnel and financial resources to the introduction of next-generation products and enhancements of existing products. Lower absolute spending in the quarter ended September 28, 2003 compared to the quarter ended September 29, 2002 reflects our efforts to streamline processes to deliver cost effective results. The decrease in absolute dollars is primarily related to lowered costs of supplies.

Selling, General and Administrative

	Three Months Ended September 28, 2003	Three Months Ended September 29, 2002	Percent Change
	(dollars in thousands)		
Selling, General & Administrative	$ 33,993	$ 33,359	1.9%
Percent of total revenue	18.5%	16.9%	

Selling, General and Administrative (SG&A) expenses for the three months ended September 28, 2003 were essentially flat when compared to the year ago period. In accordance with the accelerated vesting provisions from a stock option award granted to our Chairman and Chief Executive Officer, the September 28, 2003 expenditures include $2.8 million in compensation expenses. See Note 7 of Notes to Condensed Consolidated Financial Statements for additional information. Excluding this charge, SG&A expenses decreased by $2.1 million from the prior year period, as infrastructure rationalization has led to a reduction in facilities-related expenses of approximately 35%. Additionally, salaries, benefits and supplies costs have been significantly substituted with variable, largely transaction-based pricing from selected providers.

Restructuring Activities

We have developed programs and incurred restructuring charges in response to the high level of volatility and, at times, depressed levels of capital investment by the semiconductor industry. We systematically review our revenue outlook and forecasts and assess their impact on required employment levels, facilities utilization, and outsourcing activities scope. Based on these evaluations, our senior management committed to cost reduction and exit activities in the quarters ended September 28, 2003 (the September 2003 Plan), June 29, 2003 (the June 2003 Plan), March 30, 2003 (the March 2003 Plan), December 29, 2002 (the December 2002 Plan), December 30, 2001 (the December 2001 Plan), and September 23, 2001 (the September 2001 Plan). Prior to the end of each quarter noted above, management with the proper level of authority approved specific actions under the respective Plan and communicated the severance packages to potentially impacted employees in enough detail such that the employees could determine their type and amount of benefit. The termination of the affected employees occurred as soon as practical after the restructuring plans were announced. The amount of remaining future lease payments for facilities we ceased to use and included in the restructuring charges are based on management's estimates using known prevailing real estate market conditions at that time. Leasehold improvements relating to the vacated buildings were written off, as these items will have no future economic benefit to us and have been abandoned. We distinguish regular operating cost management activities from restructuring activities. Accounting for restructuring activities requires an evaluation of formally committed and approved plans. Restructuring activities have comparatively greater strategic significance and materiality and may involve exit activities, whereas regular cost containment activities are more tactical in nature and are rarely characterized by formal and integrated action plans or exiting a particular product, facility, or service.

As of September 28, 2003, the overall restructuring reserve balance consisted of approximately $0.6 million related to restructurings implemented during fiscal 2004, $9.4 million related to restructurings implemented during fiscal 2003, and $7.4 million related to restructurings implemented during fiscal 2002. These same balances consisted of approximately $0.7 million of severance and benefits-related costs anticipated to be utilized by the end of the 2003 calendar year and $16.7 million primarily related to lease payments on vacated buildings anticipated to be utilized by the end of fiscal year 2008.

Fiscal 2004 Restructuring Activities

We recorded a net restructuring charge during the quarter ended September 28, 2003, of approximately $0.8 million, consisting of severance and benefits for involuntarily terminated employees of $0.8 million, charges for the present value of remaining lease payments on vacated facilities of $0.5 million, and the write-off of related leasehold improvements of $0.1 million. These charges were partially offset by recovery of $0.3 million due to lower than previously estimated employee severance and benefits costs and $0.3 million of recovered inventory from unanticipated sales to our installed base of certain portions of inventory previously written off as part of our September 2001 restructuring.

As a result of the fiscal 2004 restructuring activities, we expect quarterly savings of approximately $0.5 million, primarily related to lower payroll, facilities, and depreciation expenses. Actual results may vary from these forecasts, depending upon future events and circumstances.

September 2003 Plan

We began carrying out the announced restructuring activities prior to September 28, 2003, by reducing our workforce primarily in North America and Europe by approximately 20 people and by vacating selected facilities located in North America and Asia deemed to be no longer necessary to our operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America. We recorded a restructuring charge during the quarter ended September 28, 2003 of approximately $1.2 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements.

Below is a table summarizing activity relating to the September 2003 Plan:

	Severance and Benefits	Facilities	Abandoned Fixed Assets	Total
		(in thousands)		
September 2003 provision	$ 713	$ 394	$ 123	$ 1,230
Cash payments	(462)	(61)	—	(523)
Non-cash charges	—	—	(123)	(123)
Balance at September 28, 2003	$ 251	$ 333	$ —	$ 584

Fiscal 2003 Restructuring Activities

As a result of the fiscal 2003 restructuring activities, we expect quarterly savings in total expenses of approximately $1.0 million from the June 2003 Plan, $1.0 million from the March 2003 Plan, and $3.0 million from the December 2002 Plan. These estimated savings are primarily related to lower payroll, facilities, and depreciation expenses. Actual results may vary from those anticipated, depending upon future events and circumstances, such as differences in actual sublease income versus estimated amounts. Through September 28, 2003, we believe realized savings are largely consistent with original estimates. However, other factors may significantly influence our future cost structure and, consequently, partially or totally offset savings from the Plans.

June 2003 Plan

We began carrying out the announced restructuring activities prior to June 29, 2003, by reducing our workforce in North America, Europe, and Asia by approximately 30 people and by vacating selected sales and administrative facilities located in North America, Europe, and Asia deemed to be no longer required for our operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America. We recorded a restructuring charge during the quarter ended June 29, 2003, of approximately $7.6 million, consisting of severance and benefits for involuntarily terminated employees, charges for the present value of remaining lease payments on vacated facilities, a loss on the fair value of a vacated facility and the write-off of related leasehold improvements. In June 2003, a lease covering one of our vacated facilities at our Fremont, California campus was amended, combined, restated, and transferred to a new lessor under a single lease structure. At the time of the amendment, the leased facility's fair value was less than its original cost by approximately $1.0 million. Accordingly, this amount was recorded as a loss on the fair value of the vacated facility and included in the $6.7 million facility-related restructuring charge.

Below is a table summarizing activity relating to the June 2003 Plan:

	Severance and Benefits	Facilities	Abandoned Fixed Assets	Total
		(in thousands)		
June 2003 Provision	$ 783	$ 6,656	$ 210	$ 7,649
Cash payments	(366)	(388)	—	(754)
	—	—	(210)	(210)
Balance at June 29, 2003	417	6,268	—	6,685
Cash payments	(374)	(375)	—	(749)
Reversal of restructuring charges	(23)	—	—	(23)
Additional restructuring charges	—	84	—	84
Balance at September 28, 2003	$ 20	$ 5,977	$ —	$ 5,997

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March 2003 Plan

We began carrying out these restructuring activities prior to March 30, 2003, by reducing our workforce in North America and Europe by approximately 50 people and by vacating selected sales and administrative facilities located in North America deemed to be no longer required for our operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America. We recorded a restructuring charge during the quarter ended March 30, 2003, of approximately $4.7 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements. During the quarter ended September 28, 2003, $0.3 million were recovered due to lower than previously estimated employee severance and benefits costs.

Below is a table summarizing activity relating to the March 2003 Plan:

	Severance and Benefits	Facilities	Abandoned Fixed Assets	Total
		(in thousands)		
March 2003 Provision	$ 1,658	$ 2,913	$ 171	$ 4,742
Cash payments	(855)	(757)	—	(1,612)
Non-cash charges	(228)	—	(171)	(399)
Balance at June 29, 2003	575	2,156	—	2,731
Cash payments	(140)	(250)	—	(390)
Reversal of restructuring charges	(280)	—	—	(280)
Balance at September 28, 2003	$ 155	$ 1,906	$ —	$ 2,061

December 2002 Plan

We began carrying out these restructuring activities prior to December 29, 2002 by reducing our workforce in North America, Europe, and Asia by approximately 120 employees and by vacating selected sales and administrative facilities located in North America, Europe and Asia deemed to be no longer necessary for our operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with approximately 65% from North America and approximately 35% from Asia and Europe locations. We recorded a restructuring charge of $5.7 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements.

Below is a table summarizing activity relating to the December 2002 Plan:

	Severance and Benefits	Facilities	Abandoned Fixed Assets	Total
		(in thousands)		
December 2002 Provision	$ 3,257	$ 1,945	$ 474	$ 5,676
Cash payments	(3,112)	(487)	—	(3,599)
Non-cash charges	—	(49)	(474)	(523)
Balance at June 29, 2003	145	1,409	—	1,554
Cash payments	(77)	(107)	—	(184)
Balance at September 28, 2003	$ 68	$ 1,302	$ —	$ 1,370

Fiscal 2002 Restructuring Activities

December 2001 Plan

During the second fiscal quarter of 2002, we began implementing restructuring activities which included reducing our workforce by approximately 470 employees in North America, Europe, and Asia, vacating selected administrative and warehouse facilities at our Fremont, California campus deemed to be no longer required for our operations, and the closure of certain offices in Asia. The employees included in the Plan were from a broad range of functions and at multiple levels throughout the organization with approximately 80% from North America and approximately 20% from Asia and Europe locations. We recorded a restructuring charge of $33.8 million relating to severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities and the write-off of related leasehold improvements and fixed assets.

During fiscal 2003, we recovered approximately $3.8 million of restructuring charges originally accrued under the December 2001 Plan, $2.1 million for benefits offered that were not utilized by the terminated employees and approximately $1.7 million related to a revision to the net amount of lease payments remaining on the vacated facilities. In addition, during fiscal 2003, we recorded approximately $3.0 million of additional restructuring charges of which $2.5 million were due to revisions we made in sublease assumptions for two of our vacated buildings in Fremont, California and approximately $0.1 million due to additional facility restoration costs. Additionally, we revised our estimates related to employee termination costs and recorded $0.4 million of additional expenses.

September 2001 Plan

During the first quarter of fiscal 2002, we began implementing restructuring activities which included a reduction of approximately 550 employees in North America, Europe and Asia, vacating selected facilities at our headquarters in Fremont, California deemed to be no longer required for our operations and discontinuance of the manufacture of specific products within our etch product lines. The employees were from a broad range of functions and at multiple levels of the organization, with approximately 85% from North America and 15% from Asia and Europe locations. We recorded a restructuring charge of $21.0 million which included severance and benefits for involuntarily terminated employees, charges for remaining lease payments, write-offs of leasehold improvements on vacated facilities, and inventory write-downs. The discontinued inventory charges of approximately $7.6 million related to our decision to discontinue manufacture of specific products within our etch product lines. We recovered approximately $0.3 million during the quarter ended September 28, 2003 and $1.7 million during fiscal years 2003 and 2002, respectively, from unanticipated subsequent sales to our installed base of certain portions of this inventory. In addition, in fiscal 2003 and 2002, we physically disposed of approximately $2.7 million of this inventory. We expect to complete disposition of the remaining quantities of this inventory by the end of calendar year 2003.

During fiscal 2002, we recovered approximately $1.0 million of the September 2001 Plan charge due to lower than estimated employee termination costs of $0.7 million and lower than planned expenses relating to a vacated facility lease of $0.3 million. During fiscal 2003, approximately $0.9 million was recovered due to lower employee severance and termination costs of $0.6 million and actual expenses being lower than estimates for vacated facility leases of $0.3 million. In addition, in the second quarter of fiscal 2003, we recorded additional charges for the September 2001 Plan based on a revised estimate of the length of time required to sublease one of our vacated buildings in Fremont, California. Based on prevailing market conditions, we extended the accrual for lease payments to the end of the lease in June 2004 and recorded an additional $0.6 million expense.

Fiscal 2001 Restructuring Plans

During the second quarter of fiscal 2003, we completed the remaining elements of our restructuring activities under the June 2001 Plan. An additional $1.1 million of restructuring charges was recovered due to lower than estimated employee termination costs.

Other Income (Expense), net

Other income (expense), net for the three-month period ended September 28, 2003 was a gain of $1.4 million compared to expense of $17.1 million in the corresponding period in fiscal 2003. The progression from net other expense in fiscal 2003 to net other income in fiscal 2004 was primarily due to the settlement, in August 2002, of certain equity derivative instruments indexed to Lam stock. We settled those instruments, and recorded a $16.4 million loss in the quarter ended September 29, 2002, that contributed to the life to date gain of $8.4 million.

Income Tax Expense

Income tax expense for the quarters ended September 28, 2003 and September 29, 2002 was recorded using a 25% estimated effective tax rate in each period. The loss on the settlement of our equity derivative instruments recorded in the quarter ended September 29, 2002, was non-taxable. Our fiscal 2004 tax rate estimate is based on our current profitability outlook, including our continued and substantial investments in research and development programs qualifying for R&D tax benefits.

Deferred Income Taxes

We have gross deferred tax assets arising from temporary differences, net operating losses, and tax credit carryforwards of $287.6 million and $287.5 million as of September 28, 2003 and June 29, 2003, respectively. The gross deferred tax assets are offset by a valuation allowance of $36.7 million as of September 28, 2003 and as of June 29, 2003. Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. We evaluate the realizability of the deferred tax assets quarterly and will continue to assess the need for additional valuation allowances, if any, in subsequent quarters.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, 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 subjective judgments, often as a result of the need to make estimates about matters that are inherently uncertain. We believe that the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Revenue Recognition: We recognize all revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, collectibility 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 and in addition, 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. Revenue related to sales of spare parts, system upgrade kits, and remanufactured systems is generally recognized upon shipment. Revenue related to services is generally recognized upon completion of performance of the services requested by a customer order. Revenue for extended maintenance service contracts with a fixed payment amount and a term more than one month is recognized on a straight-line basis over the term of the contract.

We changed our revenue recognition policy in the fourth quarter of fiscal 2001, effective June 26, 2000, based on guidance provided in SAB 101.

Inventory Valuation: Inventories are stated at the lower of cost or market using standard costs, which approximate actual cost 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 delivery of the products unless other customer practices prevail.

Standard costs are generally 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, 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 sale and purchase 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.

Warranty: Typically, marketing and selling semiconductor capital equipment includes providing parts and service warranty to customers as part of the overall price of the system. We provide 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. 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 differences such as tool reliability improvements. All actual parts and labor costs incurred in subsequent periods are charged to those established reserves through the application of detailed project record keeping.

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

We do not maintain general or unspecified reserves; all warranty reserves are related to specific systems. Historically, including the most recent three months ended September 28, 2003, all warranty obligations have been determined with reasonable estimates.

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

Employee Stock Purchase Plan and Employee Stock Option Plans: We account for our employee stock purchase plan (ESPP) and stock option plans under the provisions of Accounting Principles Board (APB) Opinion No. 25 "Accounting For Stock Issued to Employees" (APB 25) and Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25" (FIN 44) and make pro forma footnote disclosures as required by Statement of Financial Accounting Standards No. 148, "Accounting For

Stock-Based Compensation — Transition and Disclosure" (SFAS 148), which amends Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation" (SFAS 123). Our ESPP is a non-compensatory plan, and our stock option plans are accounted for using the intrinsic value method under the provisions of APB 25.

Pro forma net income (loss) and pro forma net income (loss) per share disclosed in the footnotes to our condensed consolidated financial statements are estimated using a Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and which are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each option. Because our stock-based awards to employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing option valuation models do not necessarily provide a reliable measure of the fair value of our stock-based awards to employees.

Deferred Income Taxes: We record a valuation allowance to reduce our net deferred tax assets to the amount that is more likely than not to be realized. Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, then the previously provided valuation allowance would be reversed. Our current valuation allowance of $36.7 million covers the tax benefit from the exercise of employee stock options and foreign tax credits. When the stock option tax benefits are realized, a portion of the valuation allowance will be reversed and credited to capital in excess of par value. When the foreign tax credits are realized, the remaining portion of the valuation allowance will be reversed through the tax provision (benefit) in the statement of operations as a reduction of income tax expense.

Recent Accounting Pronouncements

Accounting for Revenue Arrangements with Multiple Deliverables: In November 2002, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" (EITF 00-21). EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple deliverables (products, services, and/or rights to use assets). The provisions of EITF 00-21 are applicable for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on our financial position or results of operations.

Amendment of Statement 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), *on Derivative Instruments and Hedging Activities:* In April 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", (SFAS 149). SFAS 149 amends SFAS 133 for decisions made as part of the Derivatives Implementation Group (DIG) and changes financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. Specifically, SFAS 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS 133, (2) clarifies when a derivative contains a financing component that requires reporting as cash flows from financing activities in the statement of cash flows and (3) amends the definition of an "underlying" to correspond to the language in FIN 45. These changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that require separate accounting. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. However, the provisions of SFAS 149 that codify the previous decisions made by the DIG are already effective and should continue to be applied in accordance with their prior respective effective dates. The adoption of SFAS 149 did not have a material impact on our financial position or results of operations.

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity: In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 represents a significant change in practice in the accounting for a number of financial instruments including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 generally requires liability classification for two broad classes of financial instruments: (1) instruments that represent, or are indexed to, an obligation to buy back the issuer's shares, regardless of whether the instrument is settled on a net-cash or gross physical basis, (2) obligations that can be settled in shares but meet one of the following conditions: (a) derive their value predominately from some other underlying, or (b) have a fixed value, or have a value to the counterparty that moves in the opposite direction as the issuer's shares. Many of the instruments within the scope of SFAS 150 were previously classified by the issuer as equity or temporary equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective the first quarter of fiscal 2004. The adoption of SFAS 150 did not have a material impact on our financial position or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents, short-term investments, and restricted cash increased sequentially by $17.1 million to $642.9 million as of September 28, 2003.

Net cash used for operations for the three-month period ended September 28, 2003, was $1.2 million. Net income of $4.8 million, adjusted for non-cash charges such as depreciation and amortization, amortization of deferred stock-based compensation and certain restructuring charges of $13.1 million, resulted in positive cash flow of $17.9 million. Other significant changes include a decrease in net inventories of $8.8 million, largely offset by net accounts receivable increases of $6.6 million, despite a $16.0 million decrease in sold accounts receivable. Prepaid expenses and other current assets increased $5.2 million and deferred profit decreased $16.9 million.

Net cash used for investing activities in the quarter ended September 28, 2003 was $101.0 million. We purchased $99.2 million, net, of short-term investments. Net capital expenditures were $1.8 million.

Net cash provided by financing activities for the three-month period ended September 28, 2003, was $21.6 million and consisted primarily of the issuance of common stock as a result of employee exercises of stock options of $17.1 million and reissuance of $4.4 million from treasury stock through our employee stock purchase program.

We have an agreement to sell certain U.S. Dollar-denominated receivables, subject to certain recourse provisions to a financial institution. During the three-month period ended September 28, 2003, we sold $21.6 million of these receivables, the cash flows of which are included in operating activities. At September 28, 2003, $21.6 million of these receivables remained uncollected, of which $2.2 million were subject to recourse provisions.

Our contractual cash obligations and commitments relating to our debt obligations, lease payments and outsourcing activities are as follows:

	Debt and Other Long-term Liabilities	Operating Leases	Purchase Obligations
		(in thousands)	
Fiscal years ended:			
Through June 27, 2004	$ 5,000	$ 11,713	$ 43,561
2005 through 2007	325,024	20,520	70,613
2008 through 2010	215	101,358	24,006
Thereafter	—	619	—
Total	$ 330,239	$134,210	$138,180

During fiscal 2003, we settled our outstanding equity derivative contracts that were recorded in other short-term assets. Based on the market price of our common stock at the contract settlement date (August 23, 2002), the fair value of the equity derivative contracts was $8.4 million as compared to the June 30, 2002 fair value of $24.8 million.

Our 5% Convertible Subordinated Notes matured on September 2, 2002 and were repaid in full. This resulted in a cash outlay of approximately $309.8 million.

On January 28, 2003, our Japanese subsidiary repaid its ¥6.0 billion ($51.1 million at January 28, 2003) Japanese long-term loan in full.

At September 28, 2003, obligations under debt financing consist of our 4% Convertible Subordinated Notes (4% Notes). Details of the 4% Notes are:

Offering Date	May 2001
Offering Amount	$300.0 million
Maturity Date	June 1, 2006
Offering Expenses	$8.5 million incurred at the time of offering, ratably amortized to other expense over the term of the 4% Notes. Remaining unamortized balance of $4.5 million and $5.0 million at September 28, 2003 and June 29, 2003, respectively.
Interest Rate Terms	4% payable on June 1 and December 1 of each year, commencing December 1, 2001.
Conversion Rights	Convertible into Company Common Stock at any time prior to close of business on the maturity date, unless previously redeemed, at a conversion price of $44.93 per share subject to anti-dilution adjustments.
Redemption Terms	Redeemable at the Company's option, beginning June 5, 2004 with at least 20 days and no more than 60 days notice, at redemption prices starting at 101.0% and at diminishing prices thereafter, plus accrued interest.
Security	4% Notes are unsecured and subordinated in right of payment in full to all existing and future senior indebtedness of the Company.

During the third quarter of fiscal 2002, we entered into an interest rate swap agreement (the swap) with a notional amount of $300 million in order to hedge changes in the fair value of our 4% Notes, attributable to changes in the benchmark interest rate. The transaction swapped 4% fixed interest payments for variable interest payments based on the London Interbank Offered Rate (LIBOR), resulting in interest expense savings of approximately $2.7 million for the three months ended September 28, 2003. Should 6-month LIBOR interest rates rise above approximately 5% per annum in future periods, we would incur incremental interest expense. Under the terms of the transaction, we must provide collateral to match any unfavorable mark-to-market exposure (fair value) on the swap. The amount of collateral required totals a minimum of $6.0 million plus an amount equal to the unfavorable mark-to-market exposure on the swap. Therefore, the amount of cash collateral we will have to post in the future will fluctuate from quarter to quarter commensurate with the unfavorable mark-to-market exposure on the swap instrument. Generally, the required collateral will rise as interest rates rise. As of September 28, 2003 and June 29, 2003, we have posted $6.0 million of collateral under this swap agreement which is included in restricted cash on our balance sheet. We have designated this swap as a fair value hedge under the provisions of SFAS 133.

During the second quarter of fiscal 2002 we signed a final settlement agreement with Varian Semiconductor Equipment Associates, Inc. (Varian) in connection with the patent infringement litigation filed by Varian in October 1993. Under the terms of the settlement agreement, Varian granted us a nonexclusive license to the patents involved in the litigation. We agreed to pay Varian $20.0 million in cash, $5.0 million in December 2001 and the remainder to be paid in equal quarterly installments of $1.25 million over a three-year period. As of September 28, 2003, a total amount of $13.8 million was paid to Varian and the total obligation remaining is $6.3

million, which will be paid through December 2004.

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. All 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. Additionally, certain of our facility leases provide for periodic rent increases based on the general rate of inflation.

In March and June of 2003, lease agreements relating to properties at our Fremont, California campus were transferred to a new lessor, amended, combined and restated. As part of the lease agreements, we have the option to purchase the buildings at any time. The total purchase price for all properties related to these leases is approximately $112.4 million. In addition, we are required to guarantee the lessors a residual value on the properties of up to $98.7 million at the end of the lease terms in fiscal 2008 (in the case that the leases are not renewed, we do not exercise the purchase options, and the lessor sells the properties and the sale price is less than the lessor's costs). At the time of the June amendment, one of the leased property's current fair value was less than its original cost by approximately $1.0 million. The leased property was a building that had been part of our past restructuring activities, and the loss was recorded as a restructuring charge during fiscal 2003. As a result, we recorded a $1.0 million liability for the loss on the leased property. We maintain cash collateral of $112.4 million as part of the lease agreements as of September 28, 2003 in separate, specified interest-bearing accounts. 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 FIN 46, and is therefore not consolidated by us.

We continue to enter into new agreements and maintain existing agreements to outsource certain elements of our transactional general and administrative functions, elements of our manufacturing, warehousing, logistics, facilities maintenance and information technology functions. These outsourced services should provide us with more flexibility to scale our operations in a more timely manner to respond to the cyclical nature of our business. The contractual cash obligations and commitments table presented above contains our minimum outsourcing obligations at September 28, 2003 under these arrangements and others. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to minimum spending commitments, certain of these agreements provide for potential cancellation charges.

Consignment inventories, which are owned by vendors but located in our discrete storage locations and warehouses, are not reported as inventory until title is transferred to us or our purchase obligation is determined. At September 28, 2003, vendor owned inventories held at Lam and not reported as inventory were approximately $10.7 million.

Given the cyclical nature of the semiconductor equipment industry, we believe that maintaining sufficient liquidity reserves is important to ensure our ability to invest in R&D and capital infrastructure through ensuing business cycles. Based upon our current business outlook, our levels of cash, cash equivalents, and short-term investments at September 28, 2003, combined with asset management activities, are expected to be sufficient to support our anticipated levels of operations, investments, and capital expenditures, through at least the next twelve months. In the longer-term, liquidity will depend to a great extent on our future revenues and our ability to appropriately size our business based on demand for our products.

Risk Factors

Our Quarterly Revenues and Operating Results are Unpredictable

Our revenues and operating results may fluctuate significantly from quarter to quarter due to a number of factors, not all of which are in our control. 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, or regulatory changes or changes in their interpretation;
- procurement shortages;
- manufacturing difficulties;
- the failure of our suppliers or outsource providers to perform their obligations in a manner consistent with our expectations;
- new or modified accounting regulations;
- exchange rate fluctuations; and
- exposure on interest rate swap agreements.

Further, because a significant amount of our R&D and administrative operations and capacity is located at our Fremont, California facility, natural, physical, logistical or other events or disruptions affecting this facility (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 $4.5 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 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. During calendar year 2001 and the first half of calendar year 2002, semiconductor manufacturers canceled or delayed delivery of orders as a result of overcapacity. The resulting demand contraction had a negative impact on the level of system shipments during fiscal 2002 compared to fiscal 2001. The semiconductor industry is experiencing a prolonged downturn and although there are early signs that demand for wafer processing equipment may be improving, as of the end of the first quarter of fiscal 2004, our customers continue to remain cautious about their levels of capital expenditures.

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 have new products manufactured 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 or other members of the industry. We must manage product transitions and joint development relationships successfully, as introduction of new products could adversely affect our sales of existing products. Future technologies, processes or product developments may render our current product offerings obsolete, leaving us with non-competitive products, or obsolete inventory, or both.

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

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

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

We Have a Limited Number of Key Customers

Sales to a limited number of large customers constitute a significant portion of our overall revenue. As a result, the actions of even one customer may subject us to revenue swings that are difficult to predict. Similarly, significant portions of our credit risk may, at any given time, be concentrated among a limited number of customers.

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 component suppliers sold us products during at least the last four years, and we expect that we will continue to renew these contracts in the future or that we will otherwise replace them with competent alternative source suppliers. However, several of our outsourced assembly suppliers are new providers to us so that our experience with them and their performance is limited. Where practical, our intent is to establish alternative sources to mitigate the risk that the failure of any single supplier will adversely affect our business. Nevertheless, a prolonged inability to obtain certain components could impair our ability to ship products, lower our revenues and thus adversely affect our operating results and result in damage to our customer relationships.

Our Outsource Providers May Fail to Perform as We Expect

We are expanding the roles that outsource providers play in our business. These outsource providers have played and will play key roles in our manufacturing operations and in many of our transactional and administrative functions. Although we aim at selecting reputable providers and secure their performance on terms documented in written contracts, it is possible that one or more of these providers could fail to perform as we expect and such failure could have an adverse impact on our business. In addition, the expanded role of outsource providers has and will 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

Non-U.S. sales accounted for approximately 72% of our total revenue in fiscal 2003, 71% in fiscal 2002, and 70% in fiscal 2001. We expect that international sales will continue to account for a significant portion of our total revenue in future years. International sales are subject to risks, including, but not limited to:

- foreign exchange risks;
- changing import/export requirements;
- foreign trade disputes; and
- economic, political, banking and currency problems in the relevant region.

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

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

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

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

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

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

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

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

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

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

- general market, semiconductor, or semiconductor equipment industry conditions;
- global economic fluctuations;
- variations in our quarterly operating results;
- variations in our revenues or earnings from levels that securities analysts forecast;
- announcements of restructurings, technological innovations, reductions in force, departure of key employees, consolidations of operations, or introduction of new products;
- government regulations;

- developments in, or claims relating to, patent or other proprietary rights;
- 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 email. These Information Systems may be owned by us or by our outsource providers or even third parties such as vendors and contractors and may be maintained by us or by such providers and third parties. These Information Systems are subject to attacks, failures, and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, hard drives, communication lines, and networking equipment. To the extent that these Information Systems are under our control, we have implemented security procedures, such as virus protection software and emergency recovery processes, to address the outlined risks; however, security procedures for Information Systems cannot be guaranteed to be failsafe and our inability to use or access these Information Systems at critical points in time could unfavorably impact the timely and efficient operation of our business.

Risk Associated with Our Interest Rate Swap Agreement

We aim to limit the impact of interest rate exposure associated with our interest rate sensitive investments and debt obligations. To minimize the effect of the interest rate exposure associated with our 4% Convertible Subordinated Notes, we have entered into an interest rate swap agreement with a notional amount of $300 million. We entered into the swap in order to hedge changes in the fair value of our 4% Notes, attributable to changes in the benchmark interest rate, by swapping 4% fixed interest payments for variable interest payments based on the LIBOR based interest rate.

If 6-month LIBOR based interest rates remain at current levels or decrease we expect the swap will result in interest savings. However, a rise in 6-month LIBOR based interest rates above approximately 5% per annum in future periods would result in incremental levels of interest expense.

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

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

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

In addition, our Certificate of Incorporation authorizes issuance of 5,000,000 shares of undesignated Preferred Stock. Our Board of Directors, without further stockholder approval, may issue this Preferred Stock on such terms as the Board of Directors may determine, which also could have the effect of delaying or preventing a change in control of Lam. The issuance of Preferred Stock could also adversely affect the voting power of the holders of our Common Stock, including causing the loss of voting control. Moreover, Section 203 of the Delaware General Corporation Law restricts certain business combinations with “interested stockholders”, as defined by that statute.

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

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 agreements with certain officers, directors and key employees provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from their service to Lam. In such cases, it is our policy either to defend the claims or to negotiate licenses on commercially reasonable terms. However, we may be unable in the future to negotiate necessary licenses on commercially reasonable terms, or at all, and any litigation resulting from these claims by other parties may materially adversely affect our business and financial results.

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

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

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

For financial market risks related to changes in interest rates and foreign currency exchange rates, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk”, in our Annual Report on Form 10-K for the year ended June 29, 2003.

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt obligations. 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. We have no foreign exchange cash flow exposure related to our fixed rate $300.0 million convertible subordinated notes.

During the third quarter of fiscal 2002, we entered into an interest rate swap agreement with a notional amount of $300 million in order to hedge changes in the fair value of our 4% Convertible Subordinated Notes, attributable to changes in the benchmark interest rate. The transaction exchanged 4% fixed interest payments for variable interest payments based on the LIBOR based interest rate, resulting in interest expense savings of approximately $2.7 million for the three-month period ended September 28, 2003. Should 6-month LIBOR interest rates rise above approximately 5% per annum in future periods, incremental interest expense may be incurred.

ITEM 4. Controls and Procedures

As of the close of our quarter ended September 28, 2003, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-14 and 13a-15. Based upon that evaluation, our Chairman and Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are reasonably effective in timely alerting them to material information relating to the Company (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 6. Exhibits

10.96	Employment Agreement for Nicolas J. Bright, dated August 1, 2003.
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	Certification Pursuant to 18 U.S.C. 1350 (section 906 of the Sarbanes-Oxley Act of 2002) – Chief Executive Officer
32.2	Certification Pursuant to 18 U.S.C. 1350 (section 906 of the Sarbanes-Oxley Act of 2002) – Chief Financial Officer

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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: November 7, 2003

LAM RESEARCH CORPORATION

(Registrant)

By: /s/ Mercedes Johnson

Mercedes Johnson

Senior Vice President, Finance and Chief Financial Officer

(Chief Accounting Officer)

EXHIBIT INDEX

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EXHIBIT 10.96

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), with an Effective Date of August 1, 2003, is made and entered into between Nicolas J. Bright (the "Executive") and Lam Research Corporation, a Delaware corporation (the "Company").

R E C I T A L S

A. The Company and Executive desire to enter into this Agreement with respect to the Executive's employment with the Company.

B. Certain capitalized terms used in the Agreement are defined in Section 7 below.

In consideration of the mutual covenants herein contained, and in consideration of the employment of Executive by the Company, the parties agree as follows:

1. Duties and Scope of Employment.

(a) Position. During the Employment Period (as defined in Section 2 (a) below), the Executive shall serve as Senior Vice-President and General Manager. The duties and responsibilities of Executive shall include the duties and responsibilities as the Board of Directors of the Company (the "Board") may, from time to time, reasonably assign to Executive, in all cases to be consistent with Executive's offices and positions.

(b) Obligations. Executive shall comply with all of Lam's policies and procedures governing employment. During the Employment Period, the Executive shall devote his full business efforts and time to the Company. The foregoing, however, shall not preclude the Executive from engaging in such activities and services as do not interfere or conflict with his responsibilities to the Company.

2. Employment Period.

(a) Term. This Agreement shall begin upon the Effective Date and shall continue until January 31, 2006 unless earlier terminated as set forth herein (the "Employment Period"). On each anniversary of the Effective Date (the "Anniversary Date"), the Employment Period shall be extended for an additional one year period, unless either party gives notice, prior to the Anniversary Date, of its or his desire not to extend the Employment Period.

(b) Termination. If either party gives timely notice of its or his desire not to extend the Employment Period, this Agreement will terminate at the conclusion of the remaining term. In addition, this Agreement may be terminated prior to expiration as follows:

(i) By the Company. The Company may terminate the Executive's employment for Cause (as defined in Section 7(a) below), by giving the Executive thirty (30) days' advance written notice, subject, however, to the cure provisions of such Section. The Company may terminate the Executive's employment with the Company for any other reason (which termination shall be regarded as an Involuntary Termination of the Executive) by giving the Executive ninety (90) days' advance notice in writing, although the Company may pay out this period in lieu of such notice. Any waiver of notice shall be valid only if it is made in writing and expressly refers to the applicable notice requirement of this Section 2(b). Termination under this section shall become effective at the end of the notice period (unless cured prior to the expiration of such period).

(ii) By the Executive. The Executive may terminate his employment with the Company by reason of Involuntary Termination (as defined in Section 7(c) below) by giving the Company thirty (30) days' advance written notice, subject, however, to the cure provisions of such Section. The Executive may terminate his employment with the Company at any time for any other reason ("Voluntary Resignation") by giving the Company ninety (90) days' advance written notice, which period may be waived or reduced at the Company's option. Any waiver or reduction of notice shall be valid only if it is made in writing and expressly refers to the applicable notice requirement of this Section 2(b). Termination under this section shall become effective at the end of the notice period (unless cured prior to the expiration of such period).

(c) Death. The Executive's employment shall terminate immediately in the event of his death.

(d) Disability. The Company may terminate the Executive's employment for Disability (as defined in Section 7(b) below) by giving the Executive ninety (90) days' advance notice in writing. In the event the Executive resumes the performance of substantially all of his duties hereunder before the termination of his employment under this Section 2(d) becomes effective, the notice of termination shall automatically be deemed to have been revoked.

(e) Priority of Rights and Obligations upon Termination. If any event leading to or permitting Termination of this Agreement, or providing notice thereof, occurs at approximately the same time as any other Termination event or during any Termination notice period, and those events invoke different notice periods or different severance or other benefit arrangements, the deadlines, obligations, rights and benefits applicable to the Termination event having the highest priority shall control. The priority of Termination events (from highest to lowest priority) is as follows: (1) Termination for Cause; (2) Voluntary Resignation; (3) Involuntary Termination; (4) Disability; and (5) death. For example, if Executive gives notice of his Voluntary Resignation and, before the 90 day notice period has expired, he is subject to an Involuntary Termination, only the rights and benefits available to him for Voluntary Resignation apply since the provisions governing Voluntary Resignation have a higher priority than those applicable to Involuntary Termination. Similarly, if Executive has been subject to an Involuntary Termination and dies during the notice period, he shall have the rights and benefits available to his estate as one subject to an Involuntary Termination. Expiration of this Agreement prevails over all termination events.

3. Compensation and Benefits.

(a) Base Compensation. During the term of this Agreement, the Company shall pay the Executive as compensation for services a base salary. The Board, at least annually, will review such base salary for possible increase, reasonably taking into account Executive's performance and prevailing compensation for executives at similar levels in similar sized companies in the industry. Such salary shall be paid periodically in accordance with normal Company payroll. The annual compensation specified in this Section 3(a) is referred to in this Agreement as "Base Compensation."

(b) Bonus. Executive shall be entitled to participate in any performance bonus plan offered by the Company.

(c) Deferred Compensation. The Executive shall be entitled to participate in the Company's Executive Deferred Compensation Plan pursuant to the terms thereof.

(d) Benefits. During the Employment Period, the Executive shall be eligible to participate in the benefit plans and compensation programs maintained by the Company of general applicability to other key executives of the Company, including (without limitation) retirement plans, savings or profit-sharing plans, deferred compensation plans, supplemental retirement or excess-benefit plans, stock option, life, disability, health, accident and other insurance programs, paid vacations (but accruing at not less than three weeks per year), and similar plans or programs, subject in each case to the generally applicable terms and conditions of the plan or program in question and to the determination of the Board or any committee administering such plan or program.

(e) Reimbursement of Business Expenses. The Company shall reimburse the Executive for all reasonable and necessary business expenses incurred by the Executive in the performance of his duties hereunder upon proper submission of expense reports in accordance with Company policies regarding such reimbursement.

4. Section 162(m). Executive and the Company agree to use reasonable good faith efforts, to the extent reasonably practicable and not

materially adverse to Executive, to structure payment of all amounts of Executive's compensation from the Company so as to avoid non-deductibility of any such amounts under Section 162(m) of the Internal Revenue Code (the "Code") or any successor provision.

5. Benefits Upon a Change in Control. If a Change in Control (as defined in this Agreement), occurring during the Employment Period, is followed by (1) the Involuntary Termination of Executive's employment or (2) Executive's acceptance of a position of materially lesser authority or responsibility offered to him by the Company, then any unvested portion of any stock options that were granted to Executive prior to the Change in Control shall automatically be accelerated in full so as to become completely vested, except that no such acceleration will occur if the Change in Control or Involuntary Termination occurs after the Executive has (i) given notice of Voluntary Resignation or (ii) been given notice of Termination for Cause by the Company unless that notice is subsequently withdrawn (in writing) by the Company and Executive's employment does not terminate as a result of such notice. For the purposes of this agreement, acceptance of a position of materially lesser authority or responsibility shall mean (1) any reduction in the Executive's Base Salary except and to the extent that the Executive participates in any company wide Executive Salary Reduction program generally applicable to all other executives or (2) the requirement to assume a position in the new entity which is less than that of Vice-President and General Manager of a Business Unit in the newly consolidated or merged entity. In addition, if the Company is acquired by another entity due to a Change in Control so that there is or will be no market for the Common Stock of the Company, all Executive's stock options, granted prior to the Change in Control, will accelerate and be immediately exercisable if the acquiring company does not provide Executive with options comparable to the unvested options granted Executive by Company. These benefits shall be in addition to any other rights that Executive may have under this agreement (e.g. the Involuntary Termination Severance Benefits provided in 6(a), below).

6. Severance Benefits.

(a) In the event of early termination, Executive shall be entitled to severance benefits that vary depending upon the reason for early termination. Such benefits shall be as follows (and no others):

(1) Voluntary Termination Severance Benefits. (A) Base salary shall cease on the effective date of termination. Executive shall not be entitled to any bonus following termination. (B) All medical and health benefits shall cease on the effective date of termination, except as specified in any then existing Executive Retirement Medical Benefit Plan for which Executive qualifies. (C) Stock Options will cease to vest and will be cancelled thirty days after the effective date of termination (unless they are exercised or expire before cancellation).

(2) Involuntary Termination Severance Benefits. (A) Executive shall be entitled to a lump sum payment equal to fifteen (15) months of salary following the effective date of termination. Executive shall be entitled to receive any bonus earned prior to the effective date of termination. (B) Company will pay the greater of COBRA benefits selected by Executive for fifteen (15) months following the effective date of termination, or the benefits under any then existing Executive Retirement Medical Benefit Plan for which Executive qualifies on the effective date of termination. (C) Stock Options granted to Executive before the effective date of termination that Executive would have vested during the fifteen (15) months following termination shall be accelerated so that they are immediately vested and exercisable. Those options will be cancelled two years following termination (unless they are exercised or expire before cancellation.)

(3) Severance Benefits following a termination for Cause. (A) Base salary shall cease on the effective date of termination. Executive shall not be entitled to any bonus following termination. (B) All medical and health benefits shall cease on the effective date of termination, except as otherwise determined in the discretion of the Board of Directors of the Company. (C) Stock Options will cease to vest and will be cancelled thirty days after the effective date of termination (unless they are exercised or expire before cancellation).

(4) Death Severance Benefits. Executive's employment shall terminate immediately in the event of his death. (A) Executive shall be entitled to receive his base salary for a period of twelve (12) months from the date of

termination payable as soon as practical and in a lump sum to Executive's estate. Executive shall be entitled to receive any bonus only to the extent such bonus would be paid pursuant to the established bonus plan or as otherwise determined in the exercise of its discretion by the Board of Directors. (B) All applicable medical and health benefits shall continue for Executive's eligible dependants and be paid for by the Company for a period of twelve months, except as specified in any then existing Executive Retirement Medical Benefit Plan for which Executive qualifies (if longer). (C) Stock Options granted to Executive before the effective date of termination shall

be accelerated so that 50% of the unvested shares in each grant are immediately vested and exercisable. Those options will be cancelled two years following the Executive's death (unless they are exercised or expire before cancellation.)

(5) Disability Severance Benefits. (A) Executive shall be entitled to receive his base salary for a period of twelve (12) months from the date disability is certified, as well as any bonus earned prior to the effective date of disability. (B) All applicable medical and health benefits shall continue and be paid for by the Company for a period of eighteen months, except as specified in any then existing Executive Retirement Medical Benefit Plan for which Executive qualifies (if longer). (C) Stock Options granted to Executive before the effective date of disability shall be accelerated so that 50% of the unvested shares in each grant are immediately vested and exercisable. Those options will be cancelled two years following the disability certification date (unless they are exercised or expire before cancellation.)

(b) Benefits; Miscellaneous. In the event of any termination of Executive's employment at any time during the term of this Agreement, (i) the Company shall pay the Executive any unpaid Base Compensation due for periods prior to the Termination Date; (ii) the Company shall pay the Executive all of the Executive's accrued and unused vacation through the Termination Date; and (iii) following submission of proper expense reports by the Executive (or his Estate), the Company shall reimburse the Executive for all expenses reasonably and necessarily incurred by the Executive in connection with the business of the Company. These payments shall be made promptly and within the period of time mandated by law.

7. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Cause. "Cause" shall mean (i) a willful act of personal dishonesty knowingly taken by the Executive in connection with his responsibilities as an employee and intended to result in his substantial personal enrichment, (ii) a willful and knowing act by the Executive which constitutes gross misconduct, (iii) any refusal by the Executive to comply with a reasonable written directive of the Board, (iv) a willful breach by the Executive of a material provision of this Agreement, or (v) a material and willful violation of a federal or state law or regulation applicable to the business of the Company. No act, or failure to act, by the Executive shall be considered "willful" unless committed without good faith and without a reasonable belief that the act or omission was in the Company's best interest. Termination for Cause shall not be deemed to have occurred unless, by the affirmative vote of all of the members of the Board (excluding the Executive, if applicable), at a meeting called and held for that purpose (after reasonable notice to the Executive and his counsel and after allowing the Executive and his counsel to be heard before the Board), a resolution is adopted finding that in the good faith opinion of such Board members the Executive was guilty of conduct set forth in (i), (ii), (iii), (iv) or (v), of this section, specifying the particulars thereof; provided that in the case of conduct set forth in (iii) or (iv), the Executive shall have the opportunity to cure same within 30 days following the Executive's receipt of written notice thereof.

(b) Disability. "Disability" shall mean that the Executive has been or will be unable to substantially perform his duties under this Agreement for a period of twelve (12) or more consecutive months due to illness, accident or other physical or mental incapacity as certified by an approved Company physician; or is certified by an approved Company physician as being permanently disabled due to illness, accident, or other physical or mental incapacity from performing all or substantially all of the duties under this Agreement.

(c) Involuntary Termination. "Involuntary Termination" shall mean:

(i) the continued assignment to the Executive of any duties or the continued significant change in the Executive's duties, either of which is substantially inconsistent with the Executive's duties immediately prior to such assignment or change for a period of thirty (30) days after notice thereof from the Executive to the Board setting forth in reasonable detail the respects in which Executive believes such assignments or duties are significantly inconsistent with the Executive's prior duties;

(ii) a reduction in the Executive's Base Compensation, other than any such reduction which is part of, and generally consistent with, a general reduction of officer salaries;

(iii) a material reduction by the Company in the kind or level of employee benefits (other than salary) to which the Executive is entitled immediately prior to such reduction with the result that the Executive's overall benefits package (other than salary) is substantially reduced (other than any such reduction applicable to officers of the Company generally);

(iv) the relocation of the Company's principal executive office to a location more than fifty (50) miles from its present location;

(v) any purported termination of the Executive's employment by the Company other than for Cause, Disability or death;

(vi) the failure of the Company to obtain the assumption of this Agreement by any successors contemplated in Section 8 below; or

(vii) any material breach by the Company of any material provision of this Agreement; provided, that none of the foregoing shall constitute Involuntary Termination to the extent the Executive has agreed thereto; and provided, further, that the foregoing shall constitute Involuntary Termination only if and to the extent that (i) the Executive provides written notice to the Company setting forth in reasonable detail such facts which Executive believes constitute Involuntary Termination and (ii) any circumstances constituting Involuntary Termination remain uncured for a period of thirty (30) days following the Company's receipt of such written notice.

(d) Termination Date. "Termination Date" shall mean (i) the last day of the applicable notice period set forth in Section 2(b) or 2(d) above (except for any Involuntary Termination Notice, given by the Executive, which is cured by the Company, or a Termination for Disability Notice which is revoked by the Executive resuming the performance of his duties), (ii) the date as of which such notice is waived in accordance with the terms of Section 2(b), (iii) the date of Executive's employment termination pursuant to this Agreement if notice of the same is not required under Section 2, or (iv) the date upon which this Agreement expires. If more than one Termination Date may apply, then the priority provisions of section 2(e) of this Agreement shall determine which Termination Date controls.

(e) Change in Control. "Change in Control" shall mean the occurrence of any of the following events:

(i) Any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, but excluding any person or group as such term is used in Rule 13d-1(b) under the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule13-d-3 under said Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the Effective Date, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(iii) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding

immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets (other than to a subsidiary or subsidiaries).

8. Successors.

(a) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the Company's obligations under this Agreement and agree expressly to perform such obligations in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive's Successors. The terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

9. Notice.

(a) General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(b) Notice of Termination. Any termination by the Company for Cause or by the Executive as a result of a Voluntary Resignation or an Involuntary Termination shall be communicated by a notice of termination to the other party hereto given in accordance with Section 9(a) of this Agreement. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date in accordance with Section 2(b) or 2(d).

10. Non-Compete; Non-Solicit.

(a) The parties hereto recognize that the Executive's services are special and unique and that his level of compensation and the provisions herein for compensation upon Involuntary Termination are partly in consideration of and conditioned upon the Executive's not competing with the Company, and that the covenant on his part not to compete and not to solicit as set forth in this Section 10 is essential to protect the business and goodwill of the Company.

(b) The Executive agrees that prior to the Termination Date, the Executive will not either directly or indirectly, whether as a director, officer, consultant, employee or advisor or in any other capacity (i) render any planning, marketing or other services respecting the creation, design, manufacture or sale of semiconductor manufacturing equipment and/or software to any business, agency, partnership or entity ("Restricted Business") other than the Company, or (ii) make or hold any investment in any Restricted Business in the United States other than the Company, whether such investment be by way of loan, purchase of stock or otherwise, provided that there shall be excluded from the foregoing the ownership of not more than 2% of the listed or traded stock of any publicly held corporation. For purposes of this Section 10, the term "Company" shall mean and include the Company, any subsidiary or affiliate of the Company, any successor to the business of the Company (by merger, consolidation, sale of assets or stock or otherwise) and any other corporation or entity of which the Executive may serve as a director, officer or employee at the request of the Company or any successor of the Company.

(c) Prior to the Termination Date, and for the period extending six (6) months thereafter, the Executive will not, directly or indirectly, induce or attempt to influence any employee of the Company to leave its employ, and the Executive will not, directly or indirectly, involve himself in decisions to hire any employee who has left the Company's employ within the three-month period preceding the Executive's cessation of employment or the three-month period following his cessation of employment.

(d) The Executive agrees that the Company would suffer an irreparable injury if he were to breach the covenants contained in subparagraphs (b) or (c) and that the Company would by reason of such breach or threatened breach be entitled to injunctive relief in a court of appropriate jurisdiction, and the Executive hereby stipulates to the entering of such injunctive relief prohibiting him from engaging in such breach.

(e) If any of the restrictions contained in this Section 10 shall be deemed to be unenforceable by reason of the extent, duration or geographical scope or other provisions thereof, then the parties hereto contemplate that the court shall reduce such extent, duration, geographical scope or other provisions hereof (but only to the extent necessary to render such restrictions enforceable) and then enforce this Section 10 in its reduced form for all purposes in the manner contemplated hereby.

11. Existing Confidentiality and Non-Compete Agreements. Executive represents and warrants (i) that prior to the date hereof he has provided the Company with true and complete copies of any and all written confidentiality and/or non-compete agreements to which Executive is a party as of the date hereof (together with a written description of any such oral agreements), and (ii) to the best of Executive's knowledge, full compliance with the terms of each such agreement will not materially interfere with Executive's duties hereunder (except to the extent that Executive reasonably may determine to absent himself from certain Company meetings and communication during the first year of the Employment Period). The Executive further covenants that he will not willfully and knowingly fail to fully abide by the terms of any and all such agreements and will work in good faith with the Company to avoid any breach thereof.

12. Arbitration. At the option of either party, any and all disputes or controversies whether of law or fact and of any nature whatsoever arising from or respecting this Agreement shall be decided by arbitration by the American Arbitration Association in accordance with the rules and regulations of that Association with the exception of any claim for temporary, preliminary or permanent injunctive relief arising from or respecting this Agreement which may be brought by the Company in any court of competent jurisdiction irrespective of Executive's desire to arbitrate such a claim

The arbitrator shall be selected as follows. In the event the Company and the Executive agree on one arbitrator, the arbitration shall be conducted by such arbitrator. In the event the Company and the Executive do not so agree, the Company and the Executive shall each select one independent, qualified arbitrator and the two arbitrators so selected shall select the third arbitrator. The Company reserves the right to object to any individual arbitrator who shall be employed by or affiliated with a competing organization.

Arbitration shall take place in San Jose, California, or any other location mutually agreeable to the parties. At the request of either party, arbitration proceedings will be conducted in the utmost secrecy; in such case all documents, testimony and records shall be received, heard and maintained by the arbitrators in secrecy under seal, available for the inspection only by the Company and the Executive and their respective attorneys and their respective experts who shall agree in advance and in writing to receive all such information confidentially and to maintain such information in secrecy unless and until such information shall become generally known. The arbitrator, who, if more than one, shall act by majority vote, shall have the power and authority to decree any and all relief of an equitable nature including, but not limited to, such relief as a temporary restraining order, a temporary and/or permanent injunction, and shall also have the power and authority to award damages, with or without an accounting and costs, provided, that punitive damages shall not be awarded, and provided, further, that the Executive shall be entitled to reimbursement for his reasonable attorney's fees to the extent he prevails as to the material issues in such dispute. The decree or judgment of an award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

Reasonable notice of the time and place of arbitration shall be given to all persons, other than the parties, as shall be required by law, in which case such persons or those authorized representatives shall have the right to attend and/or participate in all the arbitration hearings in such a manner as the law shall require.

13. Excise Tax on Payments. Notwithstanding anything to the contrary contained herein, in the event it shall be determined that any payment by the Company to or for the benefit of the Executive, whether paid or payable but determined without regard to any additional payments required under this section 13 (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code or any comparable federal, state, or local excise tax (such excise tax, together with any interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in such an amount that after the payment of all taxes (including, without limitation, any interest and penalties on such taxes and the Excise Tax) on the Payment and on the Gross-Up Payment, the Executive shall retain an amount equal to the Payment minus all applicable taxes on the Payment not imposed as a result of the Excise Tax. The intent of the parties is that the Company shall be solely responsible for, and shall pay, any Excise Tax on the Payment and Gross-Up Payment and any income and employment taxes (including, without limitation, penalties and interest) imposed on any Gross-Up Payment, as well as any loss of tax deduction caused by the Gross-Up Payment.

All determinations required to be made under this Section, including without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized accounting firm that is the Company's outside auditor at the time of such determinations, which firm must be reasonably acceptable to Executive (the "Accounting Firm"). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

14. Miscellaneous Provisions.

(a) No Duty to Mitigate. Provided that Executive fully performs his obligations under this Agreement, the Executive shall not be required to mitigate the amount of any payment contemplated by this Agreement, nor shall any such payment be reduced by any earnings that the Executive may receive from any other source.

(b) Waiver. No provisions of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Whole Agreement. This Agreement and the documents expressly referred to herein represent the entire agreement of the parties with respect to the matters set forth herein. Nothing herein affects the continued enforceability of the Company's Employment, Confidential Information and Invention Assignment Agreement previously executed by the Executive.

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

(e) Severability. If any provision of this Agreement is determined to be invalid or unenforceable, the Agreement shall remain in full force and effect as to the remaining provisions, and the parties shall replace the invalid or unenforceable provision with one which reflects the parties' original intent in agreeing to the invalid/unenforceable one.

(f) No Assignment of Benefits. Except as otherwise provided herein, the rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection (f) shall be void.

(g) Employment Taxes. All payments made pursuant to this Agreement by Company shall be subject to withholding of applicable income and employment taxes.

(h) Assignment by Company. The Company may assign its rights under this Agreement to an affiliate, and an affiliate may assign its rights under this Agreement to another affiliate of the Company or to the Company, provided, however, that no assignment shall be made if the net worth of the assignee is less than the net worth of the Company at the time of assignment. In the case of any such assignment, the term "Company" when used in a section of this Agreement shall mean the corporation that actually employs the Executive.

(i) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

(j) Survival of Obligations. The obligations of paragraphs 6, 9, 10, 11, 12, 13 and 14 shall survive termination of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement.

LAM RESEARCH CORPORATION

By: /s/ Frank T. Bean
____

Frank T. Bean

Its: V.P. Global Human Resources

DATED: 9-3-03 /s/ Nicolas J. Bright
___________________ _________________________________

Nicolas J. Bright

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 15D-14

OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

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

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

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

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

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

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

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

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

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

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

November 7, 2003

/s/ James W. Bagley

James W. Bagley
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 15D-14

OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mercedes Johnson, Senior Vice President, Finance, Chief Financial Officer and Chief Accounting Officer of Lam Research Corporation, certify that:

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

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

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

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

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

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

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

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

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

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

November 7, 2003

/s/ Mercedes Johnson

Mercedes Johnson
Senior Vice President, Finance, Chief Financial
Officer and Chief Accounting Officer

EXHIBIT 32.1

LAM RESEARCH CORPORATION

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lam Research Corporation (the "Company") on Form 10-Q for the fiscal period ending September 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James W. Bagley, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

November 7, 2003

/s/ James W. Bagley

James W. Bagley
Chairman and Chief Executive Officer

EXHIBIT 32.2

LAM RESEARCH CORPORATION

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lam Research Corporation (the "Company") on Form 10-Q for the fiscal period ending September 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mercedes Johnson, Senior 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.

November 7, 2003

/s/ Mercedes Johnson

Mercedes Johnson
Senior Vice President, Finance, Chief Financial
Officer and Chief Accounting Officer