

LAM RESEARCH CORP  
Form DEF 14A  
October 14, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant    
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only  
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- Definitive Proxy Statement
- Definitive Additional Materials
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LAM RESEARCH CORPORATION

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Fellow Stockholders -

LETTER TO  
STOCKHOLDERS

We are pleased to present this year's annual report to you, describing what we believe has been a pivotal time in the 24-year history of Lam Research Corporation.

Despite continuing challenges for the semiconductor equipment industry, the trends of our business have been unmistakably positive:

- We posted profits in the last three quarters of the year
- We won key customer positions in the high-growth dielectric etch market
- We maintained our lead position in the silicon etch market
- We saw positive results from our innovative new business model

We began to change the fundamental structure of our Company in late 2001. Our outsourcing program goes well beyond typical industry practices and puts the focus of our efforts on the core of what we do as an organization. In addition to outsourcing, we have implemented strategic initiatives surrounding asset utilization and customer relationships that we believe will further our goal of increasing shareholder value.

We are committed to strengthening Lam's performance in the semiconductor equipment industry, which is challenged with major product demand swings, intensive R&D requirements, a concentrated, yet global, customer base, and workers who are rightly concerned about job stability and continuity. To succeed in this environment, semiconductor equipment companies must be flexible, they must be first to anticipate customers' next-generation semiconductor process requirements, and they must be able to lessen the employment volatility that has characterized the semiconductor equipment industry for the last several years.

Among our accomplishments so far:

- Our flagship 2300 Series product line is now about 65 percent outsourced, up from less than 10 percent last year. This means that the effects of cyclical sales will be managed by our highly capable outsource providers, who can more efficiently balance the variation in sales levels with their other business lines.
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- Meeting the objective we outlined in our update to you last year, approximately 80 percent of Lam employees now work in our core areas of product development, marketing and sales, customer support, and supply chain management. We intend to have 85 percent of our employees focused on our core functions, which we believe will reduce the abrupt changes in our workforce that we have seen in the last several years.
  - We will have cut our facility needs almost in half, to an expected 600,000 square feet by the end of 2003, in part because we are working with outsource providers for manufacturing and warehousing. This reduces our fixed costs and enables us to respond better to the manufacturing cycles in our industry.

As a tangible sign of how these changes have affected our business, let's compare some quarterly numbers for June 2003 and June 2002:

	<b>June 2003</b>	<b>June 2002</b>
Revenue	\$ 186.1 million	\$ 180.3 million
Gross Margin (\$)	\$ 77.1 million	\$ 66.3 million
Gross Margin (%)	41.4%	36.8%

This reinforces our belief that our initiatives are working. In this quarterly comparison, a \$6 million increase in revenue resulted in an \$11 million increase in gross margin profitability.

In the same regard, the comparison of annual operating expenses in 2003 and 2002 includes a \$29 million or 18% reduction in Selling, General and Administrative costs. As business conditions improve, we expect improved margins and better operating asset turnover compared to previous cycles.

While our new business model has enabled us to improve our financial performance, it is our continued focus on developing leading-edge products, processes, and services, that will fuel our success as we move forward. Based on the level of customer acceptance of our 2300 Series etch products and the new market positions we have won in the last year, we believe that our prospects for the future are strong.

Visibility is still limited, as our customers are maintaining conservative near-term capital investment plans. However, our business sector is the foundation of the high-tech world, and we are confident that technology will continue to develop and grow. Demand for semiconductors has increased, and there are early signs that the overcapacity that has dampened our business for the last few years is beginning to be corrected. The actions outlined above ensure that our Company is well prepared to address whatever industry conditions we may encounter. We thank you for your confidence, and we look forward to updating you on our progress.

Sincerely,

James W. Bagley  
Chairman and Chief Executive Officer

Stephen G. Newberry  
President and Chief Operating Officer

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**LAM RESEARCH CORPORATION**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held November 6, 2003**

To the Stockholders:

NOTICE IS HEREBY GIVEN that the 2003 Annual Meeting of Stockholders of Lam Research Corporation, a Delaware corporation (the Company or Lam ), will be held on Thursday, November 6, 2003, 11:00 a.m., local time, at the principal executive offices of the Company at 4650 Cushing Parkway, Fremont, California 94538, for the following purposes:

1. to elect directors to serve for the ensuing year, and until their successors are elected;
2. to approve an amendment to the Lam 1999 Employee Stock Purchase Plan ( 1999 Purchase Plan ) that will (a) annually increase by a specific amount the number of shares that Lam can redeem in public market or private purchases for issuance through the 1999 Purchase Plan, and (b) allow the plan administrator to set a limit on the number of shares that a participant can purchase on any single exercise date;
3. to approve the Lam 2004 Executive Incentive Plan ( 2004 Incentive Plan );
4. to ratify the appointment of Ernst & Young LLP as independent auditors of the Company for the fiscal year ending June 27, 2004; and
5. to transact such other business as may properly come before the meeting, or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on September 12, 2003, are entitled to notice of and to vote at the meeting, and for any adjournment thereof.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to vote by proxy via telephone, Internet, or mail in accordance with the voting instructions on the proxy card. If you vote by mail, mark, sign, and date the enclosed proxy and return it as promptly as possible in the postage-prepaid and return-addressed envelope enclosed for that purpose. However, any stockholder of record attending the meeting may vote in person, even if he or she has returned a proxy.

By Order of the Board of Directors,

George M. Schisler, Jr.  
Assistant Secretary

Fremont, California  
October 10, 2003

**YOUR VOTE IS IMPORTANT**

**In order to assure your representation at the meeting, you are requested to vote by proxy via telephone, Internet, or mail in accordance with the voting instructions on the proxy card. If you vote by mail, you should mark, sign, and date the enclosed proxy card as promptly as possible and return it in the enclosed return-addressed envelope.**

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**LAM RESEARCH CORPORATION**

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**PROXY STATEMENT  
FOR  
ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held November 6, 2003**

**TABLE OF CONTENTS**

	<u>Page</u>
Information Concerning Solicitation and Voting	1
Proposal No. 1 Election of Directors	3
Corporate Governance	5
Security Ownership of Certain Beneficial Owners and Management	7
Director Compensation	8
Executive Compensation and Other Information	8
Certain Relationships and Related Transactions	13
Compensation Committee Interlocks and Insider Participation	13
Report of the Compensation Committee	14
Report of the Audit Committee	17
Relationship with Independent Auditors	17
Comparative Stock Performance	18
Equity Compensation Plan Information	19
Proposal No. 2 Approval of Amendment of the Lam 1999 Employee Stock Purchase Plan	20
Proposal No. 3 Approval of Lam 2004 Executive Incentive Plan	27
Proposal No. 4 Ratification of Appointment of Independent Auditors	30
Section 16(a) Beneficial Ownership Reporting Compliance	31
Other Matters	31

**LAM RESEARCH CORPORATION**

**PROXY STATEMENT FOR 2003 ANNUAL MEETING OF STOCKHOLDERS**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**General**

The enclosed proxy is solicited on behalf of Lam Research Corporation, a Delaware corporation (the "Company" or "Lam"), for use at the Annual Meeting of Stockholders to be held Thursday, November 6, 2003, at 11:00 a.m., local time (the "Annual Meeting"), or for any adjournment thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the principal executive offices of the Company at 4650 Cushing Parkway, Fremont, California 94538. The Company's telephone number at that location is (510) 572-0200.

These proxy solicitation materials will be mailed on or about October 10, 2003 to all stockholders entitled to vote at the meeting. A copy of Lam Research Corporation's 2003 Annual Report to Stockholders accompanies and is attached to this Proxy Statement.

**Record Date and Principal Share Ownership**

Stockholders of record at the close of business on September 12, 2003 (the "Record Date") are entitled to receive notice of and to vote at the Annual Meeting. At the Record Date, 129,531,699 shares of the Company's Common Stock were outstanding.

**Revocability of Proxies**

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Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Company a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. However, attending the Annual Meeting in and of itself does not constitute a revocation of a proxy.

### Voting and Solicitation

Each stockholder voting on the election of directors may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected (six at this meeting) multiplied by the number of shares held by such stockholder, or distribute the stockholder's votes on the same principle among as many candidates as the stockholder deems appropriate. However, votes cannot be cast for more than six candidates. No stockholder shall be entitled to cumulate votes for a candidate unless the candidate's name has been placed in nomination prior to the voting.

Where no vote is specified or where a vote FOR all nominees is marked, the cumulative votes represented by a proxy will be cast, unless contrary instructions are given, at the discretion of the proxy holders in order to elect as many nominees as believed possible under the then-prevailing circumstances. If a stockholder desires to cumulate his or her votes, the accompanying proxy card should be marked to indicate clearly that the stockholder desires to exercise the right to cumulate votes and should specify how the votes are to be allocated among the nominees for directors. For example, a stockholder may write next to the name of the nominee or nominees for whom the stockholder desires to cast votes the number of votes to be cast for such nominee or nominees. Alternatively, without exercising his or her right to vote cumulatively, a stockholder may instruct the proxy holders not to vote for one or more nominees by writing the name(s) of such nominee or nominees on the space provided on the proxy card. Unless indicated to the contrary in the space provided on the proxy card, if a stockholder withholds authority to vote for one or more nominees, all cumulative votes of such stockholder will be distributed among the remaining nominees at the discretion of the proxy holders.

On all other matters, each share has one vote.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspector of Elections (the Inspector). The Inspector will also determine whether or not a quorum is present. The six candidates for election as directors at the Annual Meeting who receive the highest number of affirmative votes will be elected. The approval of each of Proposal No. 2 (amendment of the Lam 1999 Employee Stock Purchase Plan),

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Proposal No. 3 (approval of 2004 Executive Incentive Plan), and Proposal No. 4 (ratification of the independent auditors for the Company for the current fiscal year) will each require the affirmative vote of a majority of the shares of the Company's Common Stock present or represented and entitled to vote with respect to each such matter.

In general, Delaware law provides that a quorum consists of a majority of the shares entitled to vote at the Annual Meeting. Abstentions will be treated as shares that are present or represented and entitled to vote for purposes of determining the presence of a quorum but will not be treated as votes in favor of approving any matter submitted to the stockholders for a vote. Thus, abstentions will have the same effect in this regard as negative votes. Any proxy that is properly dated, executed, and returned using the form of proxy enclosed will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, the shares will be voted for the election of directors, for the amendment of the Lam 1999 Employee Stock Purchase Plan, for the approval of the 2004 Executive Incentive Plan, and for ratification of the appointment of the designated independent auditors, and, with respect to any other matter or matters that may come before the meeting, as the proxy holders deem advisable in accordance with their best judgment. If a broker indicates on the enclosed proxy or its substitute that he or she does not have discretionary authority as to certain shares to vote on a particular matter (broker non-votes), or with respect to shares as to which proxy authority has been withheld with respect to a matter, those shares will be counted as present in determining whether a quorum for the meeting is present but will not be considered as present or represented with respect to that matter. Thus broker non-votes will have no effect on any of the four proposals being voted on at the Annual Meeting. The Company believes that the tabulation procedures to be followed by the Inspector are consistent with the general statutory requirements in Delaware concerning voting of shares and determination of a quorum.

Employee participants in the Company's Savings Plus Plan, Lam Research 401(k) (the 401(k) Plan) who held Company stock in their personal 401(k) Plan accounts as of the Record Date are being provided with this Proxy Statement as a 401(k) Plan participant so that each such stockholder may vote his or her interest in the Company's Common Stock as held in the 401(k) Plan. Upon receipt of properly marked and returned proxies, Lam Research Corporation as the 401(k) Plan Administrator or Security Trust Corporation as the Trustee will vote the aggregate voted proxies of the 401(k) Plan participants in accordance with the proxies received. If a 401(k) Plan participant does not vote his or her interest with respect to the proposals to be voted on at this year's Annual Meeting, then those non-voted shares will not be voted.

The cost of soliciting proxies will be borne by the Company. The Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Proxies may also be solicited by certain of the Company's directors, officers, and regular employees, without additional compensation, personally or by telephone or other

communication means.

**Stockholder Proposals to be Included in the Company's 2004 Proxy Statement**

Pursuant to Rule 14a-8(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), some stockholder proposals may be eligible for inclusion in the Company's 2004 Proxy Statement. Any such proposal must be received by the Company no later than June 4, 2004. Stockholders interested in submitting such a proposal are advised to contact counsel familiar with the detailed requirements of the applicable securities rules.

**Stockholder Proposals and Nominations to be Voted on at 2004 Annual Meeting**

Stockholders of the Company may submit proposals, in addition to Rule 14a-8(e) proposals referred to above, that they believe should be voted on at the annual meeting or nominate persons for election to the Board of Directors. In accordance with the Company's bylaws, any such proposal or nomination for the 2004 annual meeting, currently scheduled for November 4, 2004, must be submitted in writing and received by the Secretary of the Company no earlier than August 6, 2004, and no later than September 3, 2004. The submission must include

2

certain specified information concerning the proposal or nominee, as the case may be, and information about the proponent and the proponent's ownership of Common Stock of the Company. Proposals or nominations that do not meet the requirements will not be entertained at the annual meeting. Submissions or questions should be sent to: George Schisler, Jr., Office of the Secretary, Lam Research Corporation, 4650 Cushing Parkway, Fremont, California 94538.

**PROPOSAL NO. 1  
ELECTION OF DIRECTORS**

**Nominees**

A board of six directors is to be elected at the Annual Meeting. The bylaws of the Company provide that the number of directors shall be fixed at six. The proxies cannot be voted for a greater number of persons than the six nominees named below. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's six nominees named below, each of whom is currently a director of the Company. If any nominee of the Company should decline or be unable to serve as a director as of the time of the Annual Meeting, the proxies will be voted for any substitute nominee whom shall be designated by the present Board of Directors to fill the vacancy. The Company is not aware of any nominee who will be unable or will decline to serve as a director. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in such a manner in accordance with cumulative voting as will assure the election of as many of the nominees listed below as possible, and in such event the specific nominees to be voted for will be determined by the proxy holders. Discretionary authority to cumulate the votes held by the proxy holders is solicited by this Proxy Statement. The term of office of each person elected as a director will continue until the next Annual Meeting of Stockholders, or until a successor has been elected and qualified.

**THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE FOR EACH OF THE SIX NOMINEES FOR DIRECTOR SET FORTH BELOW.**

The following table sets forth certain information concerning the nominees, which is based on data furnished by them:

Nominees for Director	Age	Director Since	Principal Occupation and Business Experience During Past Five Years
James W. Bagley	64	1997	Mr. Bagley has been Chief Executive Officer and a director of the Company since the merger of Lam and OnTrak Systems, Inc. in August 1997. Effective September 1, 1998, he was appointed Chairman of the Board of Directors. From June 1996 to August 1997, Mr. Bagley served as Chairman of the Board and Chief Executive Officer of OnTrak. He was formerly Chief Operating Officer and Vice Chairman of the Board of Applied Materials, Inc., where he also served in other senior executive positions during his 15-year tenure. Mr. Bagley held various

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Nominees for Director	Age	Director Since	Principal Occupation and Business Experience During Past Five Years
		3	management positions at Texas Instruments, Inc., before he joined Applied Materials. Mr. Bagley is also currently a director of Micron Technology, Inc. and Teradyne, Inc.

Nominees for Director	Age	Director Since	Principal Occupation and Business Experience During Past Five Years
David G. Arscott <sup>(1)</sup>	59	1980	

Mr. Arscott has been a director of the Company since 1980, and was Chairman of the Board of Directors from 1982 to 1984. He is currently, and has been since 1988, the president of Compass Technology Partners, an investment management firm. From 1978 to 1988, Mr. Arscott was a Managing General Partner of Arscott, Norton & Associates, a venture capital firm. Mr. Arscott is also currently a director of Toolwire, Inc., and Star Vox, Inc.

Robert M. Berdahl <sup>(2,3)</sup>	66	2001	
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Dr. Berdahl has been a director of the Company since January 2001. He is currently Chancellor of the University of California, Berkeley, and has held that post since 1997. From 1993 to 1997, Dr. Berdahl was President of the University of Texas at Austin, and from 1986 to 1993, he was Vice Chancellor of Academic Affairs of the University of Illinois at Urbana-Champaign. Dr. Berdahl is also currently a director of Internet-2.

Richard J. Elkus, Jr. <sup>(1,3)</sup>	68		
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1997

Mr. Elkus has been a director of the Company since August 1997. He is currently, and has been since 1996, Co-Chairman of Voyan Technology. From February 1994 until April 1997, Mr. Elkus was Vice Chairman of the Board of Tencor Instruments, Inc. From February 1994 to September 1996, Mr. Elkus was Executive Vice President of Tencor Instruments. He is also currently a director of KLA-Tencor Corporation, Virage Logic Corporation, and SOPRA S.A.

Jack R. Harris<sup>(2)</sup>

61

1982

Mr. Harris has been a director of the Company since 1982. Mr. Harris is currently, and since 1999 has been, Chairman of HT, Inc. and Innovative Robotics Solutions. From 1986 until September 1999, Mr. Harris was Chairman, Chief Executive Officer, and President of Optical Specialties, Inc. Mr. Harris is also currently a director of L-3 ILEX Systems and Metara, Inc.

Grant M. Inman<sup>(1,3)</sup>

61

1981

Mr. Inman has been a director of the Company since 1981. Mr. Inman is currently a General Partner of Inman Investment Management. From 1985 until 1998, Mr. Inman was a General Partner of Inman & Bowman, a venture capital investment partnership. Mr. Inman is also currently a director of Paychex, Inc. and Wind River Systems, Inc., and a Trustee of the University of California Berkeley Foundation.

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(1) Member of Audit Committee.

(2) Member of Compensation Committee.

(3) Member of Nominating/Governance Committee.

## CORPORATE GOVERNANCE

Lam's Board of Directors and management have been and remain committed to good corporate governance to ensure that the Company is managed for the long-term benefit of its stockholders. To that end, during the past year, as well as in prior years, the Board of Directors and management have periodically reviewed and updated the Company's corporate governance policies and practices. In doing so, the Board reviews published guidelines and recommendations of institutional shareholder organizations and current best practices of similarly situated public companies. In addition, during the past year, the Board has revised Lam's corporate governance policies and practices in accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the rules and listing standards issued by the Securities and Exchange Commission ( SEC ) and the Nasdaq Stock Market, Inc. ( Nasdaq ).

Lam has in place a variety of policies and practices to promote good corporate governance. Consistent with newly adopted Corporate Governance Guidelines ( Guidelines ) (described below), a majority of the Company's Board of Directors is independent in accordance with the proposed rules of Nasdaq; and all members of the Audit Committee, Compensation Committee, and Nominating/Governance Committee also meet the Nasdaq guidelines for independence. Compensation of Lam's Chief Executive Officer ( CEO ) is approved by the independent members of Lam's Board based on recommendations of the Compensation Committee, which evaluates the CEO's performance in light of corporate goals and objectives. The Compensation Committee also determines the compensation of Lam's other executive officers based on compensation policies and practices that have been approved by the independent members of the Board. Lam also has:

in addition to its existing Audit Committee charter, adopted charters for the Compensation Committee and Nominating/Governance Committee that address corporate governance practices in accordance with the Sarbanes-Oxley Act of 2002, current and proposed Nasdaq corporate governance guidelines, and other applicable rules and regulations;

established disclosure control policies and procedures in accordance with the requirements of the Sarbanes-Oxley Act, including a Disclosure Control Committee;

established a procedure for receipt and treatment by the Audit Committee of anonymous and confidential complaints or concerns regarding audit or accounting matters;

adopted a Company-wide Global Standards of Business Conduct Policy for all employees worldwide; and

provided internal training of managers to enhance their abilities to manage in compliance with state and federal laws.

In addition, Lam has adopted a set of Corporate Governance Guidelines, as noted above. The Board's Nominating/Governance Committee is responsible for reviewing the Guidelines from time to time and reporting and making recommendations to the Board concerning corporate governance matters. Among the matters addressed by the Guidelines are:

**Director Independence** Independent directors shall constitute at least a majority of the Board. No non-employee director may serve as a consultant or service provider to the Company without the approval of a majority of the independent directors.

**Director Education** Directors are expected to attend one or more training sessions or conferences to enhance their ability to fulfill their responsibilities.

**Monitoring Board Effectiveness** From time to time, the Nominating/Governance Committee shall conduct a review of the functioning of the Board and the Board committees. In addition, the Nominating/Governance Committee shall conduct a suitability review of each director on a regular schedule.

**Executive Sessions of Independent Directors** At least twice per year the Board will schedule regular meetings of the non-management directors without management present.

**Board Access to Independent Advisors** The Board as a whole, and each of the Board committees separately, have authority to retain and terminate such independent consultants, counselors or advisors to the Board as each shall deem necessary or appropriate.

**Board Committees** All members of each of the Company's three standing committees—the Audit, Compensation and Nominating/Governance Committees—are required to be independent in accordance with Nasdaq criteria. See Board Meetings and Committees below for a description of the responsibilities of the Board's standing committees.

### Board Meetings and Committees

The Board of Directors of the Company held a total of seven regularly scheduled or special meetings during the fiscal year ended June 29, 2003. The Board of Directors has an Audit Committee, a Compensation Committee, and a Nominating/Governance Committee.

During fiscal year 2003, the Audit Committee consisted of Messrs. Arscott, Elkus, and Inman. All Audit Committee members are independent, non-employee directors. The Audit Committee held eleven meetings during fiscal 2003. This committee appoints and provides for the compensation of the Company's independent auditors; oversees and evaluates the work and performance of the independent auditors; reviews the scope of the audit; considers comments made by the independent auditors with respect to accounting procedures and internal controls and the consideration given thereto by the Company's management; approves all professional services to be provided to the Company by its independent auditors; reviews internal accounting procedures and controls with the Company's financial and accounting staff; oversees a procedure that provides for the receipt, retention and treatment of complaints received by the Company and of confidential and anonymous submissions by employees regarding questionable accounting or auditing matters; and performs related duties as set forth in applicable securities laws, Nasdaq corporate governance guidelines, and the Committee charter.

During most of fiscal year 2003, the Compensation Committee consisted of Messrs. Berdahl, Harris, and Kenneth Thompson.<sup>1</sup> All Compensation Committee members have been independent, non-employee directors. The Compensation Committee held three meetings during fiscal 2003. During fiscal 2003, the Board adopted a charter to govern the Compensation Committee and set forth its responsibilities and authority. The Compensation Committee recommends the salary level, incentives, and other forms of compensation for the chief executive officer, subject to approval by the independent members of the Board; approves salary levels, incentives, and other forms of compensation for the other executive officers of the Company; administers the Company's various incentive compensation and benefit plans; recommends policies relating to such compensation and benefit plans; and reviews and recommends to the Board all compensation arrangements applicable to the members of the Board. This committee also has authority with respect to grants of stock options, restricted stock, deferred stock, and performance share awards to officers and other employees of the Company.

During fiscal year 2003, the Nominating/Governance<sup>2</sup> Committee consisted of Messrs. Berdahl, Elkus, and Inman. All Nominating/Governance Committee members are independent, non-employee directors. The Nominating/Governance Committee held one meeting during fiscal 2003, and in addition held a meeting in September 2003. This committee recommends, for approval by the independent members of the Board, nominees for election as directors of the Company. In August 2003, the Board adopted a new charter for the Nominating/Governance Committee and a set of Corporate Governance Guidelines (described in the Corporate Governance discussion above). Pursuant to the charter and the Guidelines, the Nominating/Governance

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<sup>1</sup> Former director Kenneth Thompson served on the Compensation Committee from April 2002 until his passing in April 2003. Since April 2003 the Committee has consisted of Messrs. Berdahl and Harris.

<sup>2</sup> The Committee was renamed the Nominating/Governance Committee in September 2003 to reflect its expanded role of overseeing both the director nomination process and matters of corporate governance.

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Committee is also responsible for recommending the composition of Board committees for approval by the Board, reviewing and assessing the Corporate Governance Guidelines from time to time and recommending changes for approval by the Board, reviewing the functioning of the Board and its committees and reporting the evaluation to the Board, and reviewing the suitability of each director for continuing service on the Board. In August 2003, the Nominating/Governance Committee approved the nominees for director of the Company as set forth in Proposal No. 1 above. The Nominating/Governance Committee will consider for nomination persons properly nominated by stockholders. In order for the Nominating/Governance Committee to consider the nomination of a person submitted by a stockholder, such nomination must be made in

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accordance with the Company's by-laws and other procedures described above in the section captioned, Stockholder Proposals and Nominations to be Voted on at 2004 Annual Meeting.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below sets forth the beneficial ownership of shares of Common Stock of the Company by: (i) each person or entity whom, based on information obtained, the Company believes beneficially owned more than 5% of the Company's Common Stock, and the address of each such person or entity (5% stockholder); (ii) each current director of the Company; (iii) each named executive officer (named executive) described below in the section of this proxy statement captioned Executive Compensation and Other Information; and (iv) all current directors and current executive officers as a group. With the exception of 5% stockholders, the information below concerning the number of shares beneficially owned is provided with respect to holdings as of September 12, 2003 (the Record Date), and, with respect to the 5% stockholders, the information below is provided with respect to holdings as of June 30, 2003 (unless otherwise identified). The percentage is calculated using 129,531,699 as the number of shares outstanding as of September 12, 2003.

Name of Person or Entity	Shares Beneficially Owned	Percent of Class
Fidelity Management & Research Co. 82 Devonshire Street Boston, Massachusetts 02109	14,495,734 <sup>(1)</sup>	11.19%
Putnam Investment Management, LLC. 1 Post Office Square Boston, Massachusetts 02109	11,485,076 <sup>(1)</sup>	8.87%
Franklin Advisors, Inc. 777 Mariners Island Blvd. San Mateo, California 94404-1585	9,526,835 <sup>(1)</sup>	7.35%
James W. Bagley	3,473,000 <sup>(2)</sup>	2.68%
David G. Arscott	226,417 <sup>(2)</sup>	*
Robert M. Berdahl	48,000 <sup>(2)</sup>	*
Richard J. Elkus, Jr.	134,370 <sup>(2)</sup>	*
Jack R. Harris	186,000 <sup>(2)</sup>	*
Grant M. Inman	273,499 <sup>(2)</sup>	*
Stephen G. Newberry	1,485,247 <sup>(2)</sup>	1.15%
Mercedes Johnson	337,974 <sup>(2)</sup>	*
Nicolas J. Bright	458,921 <sup>(2, 4)</sup>	*
Ernest Maddock	104,308 <sup>(2)</sup>	*
All current directors and current executive officers as a group (11 persons) <sup>(3)</sup>	7,058,606 <sup>(2)</sup>	5.45%

\* Less than one percent

<sup>(1)</sup> Holdings as of June 30, 2003, based on the stockholders' Schedule 13F filings with the SEC.

<sup>(2)</sup> Includes shares subject to outstanding options that are currently exercisable or exercisable within 60 days after September 12, 2003, with respect to: Mr. Bagley, 3,173,000 options; Mr. Arscott, 174,000 options; Dr. Berdahl, 48,000 options; Mr. Elkus, 102,000 options; Mr. Harris, 174,000 options; Mr. Inman, 156,000 options; Mr. Newberry, 1,485,247 options; Ms. Johnson, 323,900 options; Mr. Bright, 457,649 options; Mr. Steven Lindsay, 330,000 options; and Mr. Maddock, 103,850 options, respectively.

<sup>(3)</sup> Current directors and current executive officers, as of September 12, 2003, include: Mr. Bagley, Mr. Arscott, Dr. Berdahl, Mr. Elkus, Mr. Harris, Mr. Inman, Mr. Newberry, Ms. Johnson, Mr. Bright, Steven Lindsay, and Mr. Maddock.

(4) Includes 240 shares held in trust for Mr. Bright's dependent children.

### DIRECTOR COMPENSATION

Directors who are not employees of the Company customarily receive annual retainers of \$36,000. A retainer of \$36,000 was paid to each non-employee director in fiscal 2003. In addition, non-employee directors receive \$1,000 per committee meeting attended, provided that the meeting is attended in person and occurs on a day other than a day when a full board meeting is held. In addition, each non-employee director is automatically granted on or about December 15 of each calendar year an option to purchase shares of the Company's Common Stock under the Company's Amended and Restated 1997 Stock Incentive Plan, at an exercise price per share equal to the fair market value of one share of the Company's Common Stock on the date of grant. In December 2002, each non-employee director was granted an option to purchase 24,000 shares of Common Stock, which constituted each non-employee director's stock option compensation for Fiscal Years 2003 and 2004. Each option has a term of ten years and is immediately exercisable. The plan provides that unexercised options may be exercisable for twelve months following termination of director status by death or disability.

### EXECUTIVE COMPENSATION AND OTHER INFORMATION

#### Summary of Cash and Certain Other Compensation

The following table provides, for the three fiscal years ended June 29, 2003, June 30, 2002, and June 24, 2001, respectively, certain summary information concerning compensation paid or accrued by the Company to or on behalf of the Company's Chief Executive Officer, James W. Bagley, and each of the four other most highly compensated executive officers of the Company (determined at the end of the last fiscal year) (the named executives).

8

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation <sup>(3)</sup>	All Other Compensation <sup>(4)</sup>
		Salary <sup>(1)</sup>	Bonus <sup>(1)</sup>	Other Annual Compensation <sup>(2)</sup>	Number of Securities Underlying Options <sup>(#)</sup>	
James W. Bagley	2003	429,883		1,726	501,000	
Chairman of the Board & Chief Executive Officer	2002	90,006		283	1,000	
Stephen G. Newberry	2001	97,704		129		
President & Chief	2003	501,635	33,000	2,823	285,250	1,292 <sup>(4)</sup>
	2002	472,500		570	205,250	