

LAM RESEARCH CORP
Form 10-Q
April 30, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 25, 2007 or

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

For the transition period from _____ to _____

Commission file number 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

94-2634797

*(State or other jurisdiction of incorporation or
organization)*

(I.R.S. Employer Identification Number)

**4650 Cushing Parkway
Fremont, California 94538**

(Address of principal executive offices including zip code)

(510) 572-0200

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of April 20, 2007, there were 135,073,397 shares of Registrant's Common Stock outstanding.

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

	March 25, 2007	June 25, 2006
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 494,807	\$ 910,815
Short-term investments	638,878	139,524
Accounts receivable, less allowance for doubtful accounts of \$3,837 as of March 25, 2007 and \$3,822 as of June 25, 2006	461,365	407,347
Inventories	228,435	168,714
Deferred income taxes	54,765	53,625
Prepaid expenses and other current assets	66,118	26,344
Total current assets	1,944,368	1,706,369
Property and equipment, net	107,388	49,893
Restricted cash and investments	360,038	470,038
Deferred income taxes	28,672	38,533
Goodwill	55,892	
Intangible assets, net	61,615	
Other assets	51,897	48,511
Total assets	\$ 2,609,870	\$ 2,313,344
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	\$ 142,814	\$ 108,504
Accrued expenses and other current liabilities	333,948	317,637
Deferred profit	166,109	140,085
Total current liabilities	642,871	566,226
Long-term debt	250,000	350,000
Other long-term liabilities	821	969
Total liabilities	893,692	917,195
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, at par value of \$0.001 per share; authorized - 5,000 shares, none outstanding		
Common stock, at par value of \$0.001 per share; authorized - 400,000 shares; issued and outstanding - 137,186 shares at March 25, 2007 and 141,785 shares at June 25, 2006	137	142
Additional paid-in capital	1,078,130	973,391
Treasury stock, at cost, 19,857 shares at March 25, 2007 and 13,532 shares at June 25, 2006	(720,555)	(416,447)

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Accumulated other comprehensive loss	(6,600)	(11,205)
Retained earnings	1,365,066	850,268
Total stockholders' equity	1,716,178	1,396,149
Total liabilities and stockholders' equity	\$ 2,609,870	\$ 2,313,344

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	March 25, 2007	March 26, 2006	March 25, 2007	March 26, 2006
Total revenue	\$ 650,270	\$ 437,423	\$ 1,888,057	\$ 1,116,575
Cost of goods sold	324,025	217,769	925,732	563,332
Gross margin	326,245	219,654	962,325	553,243
Research and development	75,064	61,083	205,747	168,067
Selling, general and administrative	62,208	48,303	178,267	138,317
Total operating expenses	137,272	109,386	384,014	306,384
Operating income	188,973	110,268	578,311	246,859
Other income, net	14,751	7,828	58,191	25,624
Income before income taxes	203,724	118,096	636,502	272,483
Income tax expense	38,983	31,759	120,917	58,877
Net income	\$ 164,741	\$ 86,337	\$ 515,585	\$ 213,606
Net income per share:				
Basic net income per share	\$ 1.17	\$ 0.62	\$ 3.64	\$ 1.55
Diluted net income per share	\$ 1.15	\$ 0.60	\$ 3.57	\$ 1.49
Number of shares used in per share calculations:				
Basic	140,423	140,122	141,516	137,703
Diluted	143,052	144,846	144,378	143,298

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended	
	March 25, 2007	March 26, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 515,585	\$ 213,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,177	16,235
Deferred income taxes	8,721	32,662
Amortization of premiums/discounts on securities	(1,492)	2,252
Equity-based compensation expense	23,788	17,319
Income tax benefit on equity-based compensation plans	49,816	
Excess tax benefit on equity-based compensation plans	(34,541)	
Other, net	1,520	(1,165)
Changes in working capital accounts	(60,508)	(12,488)
Net cash provided by operating activities	530,066	268,421
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(45,663)	(16,141)
Payments made for the acquisition of Bullen Ultrasonics, Inc. assets	(177,108)	
Transfer of restricted cash and investments	110,000	
Purchases of available-for-sale securities	(1,051,911)	(40,331)
Sales and maturities of available-for-sale securities	557,065	132,823
Net cash provided by / (used for) investing activities	(607,617)	76,351
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(100,120)	(67)
Excess tax benefit on equity-based compensation plans	34,541	
Treasury stock purchases	(315,345)	(214,209)
Reissuances of treasury stock	11,288	9,652
Proceeds from issuance of common stock	30,293	135,702
Net cash used for financing activities	(339,343)	(68,922)
Effect of exchange rate changes on cash	886	(255)
Net increase (decrease) in cash and cash equivalents	(416,008)	275,595
Cash and cash equivalents at beginning of year	910,815	482,250
Cash and cash equivalents at end of period	\$ 494,807	\$ 757,845

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 25, 2007
(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Lam Research Corporation (the Company or Lam) for the fiscal year ended June 25, 2006, which are included in the Annual Report on Form 10-K, File Number 0-12933. The Company's Forms 10-K, Forms 10-Q and Forms 8-K are available online at the Securities and Exchange Commission website on the Internet. The address of that site is <http://www.sec.gov>. The Company also posts the Forms 10-K, Forms 10-Q and Forms 8-K on the corporate website at <http://www.lamresearch.com>.

The Company's reporting period is a 52/53-week fiscal year. The Company's current fiscal year will end June 24, 2007 and includes 52 weeks. The quarter ended March 25, 2007 and the quarter ended March 26, 2006 both included 13 weeks.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS No. 157) which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including interim periods, for that fiscal year. The Company is currently evaluating the impact, if any, of adopting the provisions of SFAS No. 157 on its financial position, results of operations and liquidity.

In July 2006, the FASB issued FASB Interpretation Number 48, Accounting for Income Tax Uncertainties (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. Any differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company is currently in the process of determining the impact, if any, of adopting the provisions of FIN 48 on its financial position, results of operations and liquidity.

NOTE 3 EQUITY-BASED COMPENSATION PLANS

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

The Company accounts for equity-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which the Company adopted as of June 27, 2005 using the modified prospective method. The Company recognized equity-based compensation expense of \$10.9 million and \$23.8 million during the three and nine months ended March 25, 2007 and \$6.0 million and \$17.3 million during the three and nine months ended March 26, 2006, respectively. The income tax benefit

recognized in the condensed consolidated statements of operations related to equity-based compensation expense was \$2.2 million and \$4.3 million during the three and nine months ended March 25, 2007 and \$0.9 million and \$2.9 million during the three and nine months ended March 26, 2006, respectively. The estimated fair value of the Company's

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stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis for awards granted after the adoption of SFAS No. 123R and on a graded vesting basis for awards granted prior to the adoption of SFAS No. 123R.

Stock Options and Restricted Stock Units

The 2007 Stock Incentive Plan provides for the grant of non-qualified equity-based awards to eligible employees, consultants and advisors, and non-employee directors of the Company and its subsidiaries. Additional shares are reserved for issuance pursuant to awards previously granted under the Company's 1997 Stock Incentive Plan and its 1999 Stock Option Plan. As of March 25, 2007, there were a total of 19,882,891 shares reserved for future issuance under the 1997, 1999, and 2007 Plans (Plans).

The Company did not grant any stock options during the nine months ended March 25, 2007 and March 26, 2006. The fair value of the Company's stock options issued prior to the adoption of SFAS No. 123R was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each award. The fair value of these stock options was estimated assuming no expected dividends and estimates of expected life, volatility and risk-free interest rate at the time of grant. Prior to the adoption of SFAS No. 123R, the Company used historical volatility as a basis for calculating expected volatility.

A summary of stock option activity under the Plans as of March 25, 2007 and changes during the nine months then ended is presented below:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Remaining Contractual Term (years)	Aggregate Intrinsic Value as of March 25, 2007 (in thousands)
Options				
Outstanding at June 25, 2006	5,528	\$ 20.04	3.55	
Granted				
Exercised	(1,518)	19.69		
Forfeited or expired	(58)	19.04		
Outstanding at March 25, 2007	3,952	\$ 20.16	2.83	\$ 107,319
Exercisable at March 25, 2007	3,694	\$ 20.07	2.73	\$ 100,653

The total intrinsic value of options exercised during the three and nine months ended March 25, 2007 was \$8.9 million and \$48.0 million, respectively. The total intrinsic value of options exercised during the three and nine months ended March 26, 2006 was \$86.3 million and \$160.4 million, respectively. As of March 25, 2007, there was \$0.6 million of total unrecognized compensation cost related to nonvested stock options granted and outstanding; that cost is expected to be recognized through fiscal year 2009, with a weighted average remaining period of 0.7 years. Cash received from stock option exercises was \$5.9 million and \$30.3 million during the three and nine months ended March 25, 2007. Cash received from stock option exercises was \$61.6 million and \$135.7 million during the three and nine months ended March 26, 2006.

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A summary of the status of the Company's restricted stock units as of March 25, 2007, and changes during the nine months then ended is presented below:

Nonvested Restricted Stock Units	Shares (in thousands)	Weighted Average Grant- Date Fair Value
Nonvested at June 25, 2006	1,046	\$33.60
Granted	1,052	50.40
Vested	(178)	33.98
Forfeited	(55)	38.48
Nonvested at March 25, 2007	1,865	\$42.91

The fair value of the Company's restricted stock units was calculated based upon the fair market value of the Company's stock at the date of grant. As of March 25, 2007, there was \$53.7 million of total unrecognized compensation cost related to nonvested restricted stock units granted; that cost is expected to be recognized over a weighted average remaining period of 0.9 years.

ESPP

The 1999 Employee Stock Purchase Plan (the 1999 ESPP Plan) allows employees to designate a portion of their base compensation to be used to purchase the Company's Common Stock at a purchase price per share of the lower of 85% of the fair market value of the Company's Common Stock on the first or last day of the applicable offering period. Typically, each offering period lasts 12 months and comprises three interim purchase dates. As of March 25, 2007, there were a total of 14,993,828 shares reserved for issuance and 4,938,756 shares were available for issuance under the 1999 ESPP Plan.

ESPP awards were valued using the Black-Scholes model with expected volatility calculated using implied volatility. ESPP awards were valued assuming no expected dividends and the following weighted-average assumptions:

	Nine Months Ended	
	March 25, 2007	March 26, 2006
Expected life (years)	0.69	0.68
Expected stock price volatility	44.5%	34.5%
Risk-free interest rate	5.0%	3.4%

As of March 25, 2007, there was \$2.7 million of total unrecognized compensation cost related to the ESPP that is expected to be recognized over a remaining period of 0.4 years.

Table of Contents**NOTE 4 INVENTORIES**

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

	March 25, 2007	June 25, 2006
	(in thousands)	
Raw materials	\$ 115,253	\$ 78,038
Work-in-process	46,157	29,980
Finished goods	67,025	60,696
	\$ 228,435	\$ 168,714

NOTE 5 PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	March 25, 2007	June 25, 2006
	(in thousands)	
Manufacturing, engineering and office equipment	\$ 159,647	\$ 106,172
Computer equipment and software	65,336	61,419
Land	1,290	
Buildings	8,767	
Leasehold improvements	40,376	38,950
Furniture and fixtures	9,152	6,599
	284,568	213,140
Less: accumulated depreciation and amortization	(177,180)	(163,247)
	\$ 107,388	\$ 49,893

NOTE 6 ACQUISITION

During the quarter ended December 24, 2006, the Company acquired the U.S. silicon growing and silicon fabrication assets of Bullen Ultrasonics, Inc. The Company was the largest customer of the Bullen Ultrasonics silicon business. The silicon business has become a division of the Company post-acquisition while Bullen Ultrasonics retains assets unrelated to the silicon growing and silicon fabrication business.

The acquisition includes assets related to Bullen Ultrasonics' silicon growing and silicon fabrication business, including assets of Bullen Ultrasonics and Bullen Semiconductor (Suzhou) Co., Ltd., a wholly foreign-owned enterprise established in Suzhou, Jiangsu, People's Republic of China (PRC). The closing of the U.S. assets occurred on November 13, 2006. The acquisition of the Suzhou assets has not yet occurred as of the date of this filing. The assets acquired consist of fixtures, intellectual property, equipment, inventory, material and supplies, contracts relating to the conduct of the business, certain licenses and permits issued by government authorities for use in connection with the operations of Eaton, Ohio and Suzhou manufacturing facilities, real property and leaseholds connected with such facilities, data and records related to the operation of the silicon growing and silicon fabrication business and certain proprietary rights.

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Pursuant to the First Amendment to the Asset Purchase Agreement dated October 5, 2006, the parties to the Asset Purchase Agreement agreed that the closing of the sale of the Suzhou assets would take place within 5 business days following receipt by the parties of all necessary approvals, consents and authorizations of governmental and provincial authorities in the PRC and satisfaction of other customary conditions and covenants. The Company will pay the \$2.5 million purchase price for the Suzhou assets upon the receipt of the approvals and satisfaction of conditions noted above.

Consideration of \$17.5 million has been placed in escrow for a period of 12 months following the U.S. closing date to secure indemnification obligations of Bullen Ultrasonics and its shareholders relating to the accuracy of representations and warranties and the satisfaction of covenants.

The acquisition supports the competitive position and capability primarily of the Company's dielectric Etch products by providing access to and control of critical intellectual property and manufacturing technology related to the production of silicon parts in the Company's processing chambers. The Company funded the purchase price of the acquisition with existing cash resources.

The acquisition was accounted for as a business combination in accordance with Statement of Financial Accounting Standards Number 141, Business Combinations and all amounts were recorded at their estimated fair value. The Condensed Consolidated Financial Statements include the operating results from the date of acquisition. Pro forma results of operations have not been presented because the effects of the acquisition were not material to the Company's results.

The purchase price was preliminarily allocated to the fair value of assets acquired as follows, in thousands:

Cash consideration	\$ 173,893
Transaction costs	3,215
	\$ 177,108
Inventories	\$ 12,656
Property and equipment, net	33,060
Prepaid expenses and other current assets	4,392
Other assets	5,731
Accrued expenses and other current liabilities	(42)
Customer relationships	35,226
Other intangible assets	30,193
Goodwill	55,892
	\$ 177,108

The amounts above are preliminary and may be subject to change as a result of finalization of asset values.

Table of Contents**NOTE 7 GOODWILL AND INTANGIBLE ASSETS***Goodwill*

Total goodwill recorded as a result of the Bullen Ultrasonics asset transaction was \$55.9 million.

Intangible Assets

The following table provides details of the Company's intangible assets subject to amortization related to the Bullen acquisition as of March 25, 2007 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Weighted- Average Useful Lif (years)
Customer relationships	\$ 35,226	\$ (1,969)	\$ 33,257	6.9
Other intangible assets	30,193	(1,835)	28,358	4.6
	\$ 65,419	\$ (3,804)	\$ 61,615	5.9

The Company accounts for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (SFAS No. 142). SFAS No. 142 requires that goodwill and identifiable intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company reviews goodwill for impairment at least annually. In addition, the Company reviews goodwill and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

The estimated future amortization expense of purchased intangible assets as of March 25, 2007 is as follows (in thousands):

Fiscal Year	Amount
2007 (remaining three months)	\$ 3,028
2008	12,108
2009	11,938
2010	11,837
2011	8,856
Thereafter	13,848
	\$ 61,615

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Accrued expenses and other current liabilities consist of the following:

	March 25, 2007	June 25, 2006
	(in thousands)	
Accrued compensation	\$ 131,912	\$ 116,455
Warranty reserves	46,643	34,701
Income and other taxes payable	80,035	83,955
Other	75,358	82,526
	\$ 333,948	\$ 317,637

NOTE 9 OTHER INCOME, NET

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

	Three Months Ended		Nine Months Ended	
	March 25, 2007	March 26, 2006	March 25, 2007	March 26, 2006
	(in thousands)			
Interest income	\$ 18,941	\$ 10,715	\$ 58,750	\$ 25,812
Interest expense	(4,185)	(112)	(14,345)	(279)
Foreign exchange gains (losses)	330	(1,548)	(1,776)	1,604
Favorable legal judgment			15,834	
Charitable contributions		(1,000)		(1,000)
Other, net	(335)	(227)	(272)	(513)
	\$ 14,751	\$ 7,828	\$ 58,191	\$ 25,624

The legal judgment of \$15.8 million during the nine months ended March 25, 2007 was obtained in a lawsuit filed by the Company alleging breach of purchase order contracts by one of its customers. The Supreme Court of California denied review of lower and appellate court judgments in favor of Lam during the quarter ended September 24, 2006.

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The Company's effective tax rate is based on its current profitability outlook and its expectations of earnings from operations in various tax jurisdictions throughout the world. The Company has implemented strategies to, in the longer term, limit its tax liability on the sale of its products worldwide. These tax strategies are structured to align the asset ownership and functions of the Company's various legal entities around the world, with its forecasts of the level, timing and sources of future revenues and profits.

Income tax expense was \$39.0 million and \$120.9 million for the three and nine months ended March 25, 2007. Included in the tax expense for the quarter ended March 25, 2007 were discrete events resulting in a net tax benefit of \$3.8 million related to the filing of the Company's U.S. and certain foreign income tax returns. Tax expense for the nine months ended March 25, 2007 includes the \$3.8 million noted above and the following discrete events: (1) a net tax benefit of \$4.8 million related to the extension of the federal research tax credit as it pertains to the Company's fiscal year 2006, (2) the Company finalized negotiations on certain transfer pricing items; as a result, the Company reversed its related tax reserve and increased its net operating loss carryforward balance, which resulted in a net tax benefit of \$39.5 million, and (3) the Company recorded tax expense of \$29.5 million related to the application of foreign tax rulings.

NOTE 11 NET INCOME PER SHARE

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

	Three Months Ended		Nine Months Ended	
	March	March 26,	March	March 26,
	25,	2006	25,	2006
	2007		2007	2006
	(in thousands, except per share data)			
Numerator:				
Net income	\$ 164,741	\$ 86,337	\$ 515,585	\$ 213,606
Denominator:				
Basic average shares outstanding	140,423	140,122	141,516	137,703
Effect of potential dilutive securities:				
Employee stock plans	2,629	4,724	2,862	5,595
Diluted average shares outstanding	143,052	144,846	144,378	143,298
Net income per share Basic	\$ 1.17	\$ 0.62	\$ 3.64	\$ 1.55
Net income per share Diluted	\$ 1.15	\$ 0.60	\$ 3.57	\$ 1.49

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

Three Months		Nine Months Ended	
Ended	March	March	March
March	26,	25,	26,
25,	2006	2007	2006

	2007	2006	2007	2006
			(in thousands)	
Number of potential dilutive securities excluded	831	216	411	333

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The components of comprehensive income are as follows:

	Three Months Ended		Nine Months Ended	
	March	March	March	March 26,
	25,	26,	25,	2006
	2007	2006	2007	2006
	(in thousands)			
Net income	\$ 164,741	\$ 86,337	\$ 515,585	\$ 213,606
Foreign currency translation adjustment	293	2,397	2,302	19
Unrealized gain on fair value of derivative financial instruments, net	629	2,109	2,341	6,847
Unrealized gain (loss) on financial instruments, net	319	(398)	1,409	(1,521)
Reclassification adjustment for gain included in earnings	(941)	(853)	(1,447)	(5,367)
Comprehensive income	\$ 165,041	\$ 89,592	\$ 520,190	\$ 213,584

The balance of accumulated other comprehensive loss is as follows:

	March	June 25,
	25,	2006
	2007	2006
	(in thousands)	
Accumulated foreign currency translation adjustment	\$ (5,398)	\$ (7,700)
Accumulated unrealized loss on derivative financial instruments	(697)	(1,177)
Accumulated unrealized loss on financial instruments	(505)	(2,328)
Accumulated other comprehensive loss	\$ (6,600)	\$ (11,205)

NOTE 13 GUARANTEES

The Company accounts for its guarantees in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN No. 45). FIN No. 45 requires a company that is a guarantor to make specific disclosures about its obligations under certain guarantees that it has issued. FIN No. 45 also requires a company (the Guarantor) to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee.

The Company leases several facilities at its headquarters location in Fremont, California. As part of certain of the lease agreements, the Company has the option to purchase the remaining buildings at any time for a total purchase price for all remaining properties related to these leases of approximately \$85.0 million. The Company is required to guarantee the lessor a residual value on the properties of up to \$75.0 million at the end of the lease terms in fiscal year 2008 (in the event that the leases are not renewed, the Company does not exercise the purchase options, the lessor sells the properties and the sale price is less than the lessor's costs). The Company maintains cash collateral of \$85.0 million as part of the lease agreements as of March 25, 2007 in separate, specified certificates of deposit and interest-bearing accounts which are recorded as restricted cash and investments in its Condensed Consolidated Balance Sheet. The lessor under the lease agreements is a substantive independent leasing company that does not have the characteristics of a variable interest entity (VIE) as defined by FASB Interpretation No. 46, Consolidation of Variable Interest Entities and is therefore not consolidated by the Company.

The Company has issued certain indemnifications to its lessors under some of its agreements. The Company has entered into certain insurance contracts which may limit its exposure to such indemnifications. As of March 25, 2007, the Company has not recorded any liability on its financial statements in connection with these indemnifications, as it does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

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On June 16, 2006, the Company's wholly-owned subsidiary, Lam Research International SARL (LRI), as borrower, entered into a \$350 million Credit Agreement (the Credit Agreement). In connection with the Credit Agreement, the Company entered into a Guarantee Agreement (the Guarantee Agreement) guaranteeing the obligations of LRI under the Credit Agreement. The Company's obligations under the Guarantee Agreement are collateralized by readily marketable securities in an amount equal to 110% of the outstanding balance of its obligations under the Guarantee Agreement, representing \$275.0 million at March 25, 2007 as the Company had paid down \$100.0 million of the existing debt during the nine months ended March 25, 2007. This collateral is reflected in the balance of restricted cash and investments in the Company's Condensed Consolidated Balance Sheet.

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

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

Changes in the Company's product warranty reserves were as follows:

	Three Months Ended		Nine Months Ended	
	March	March	March	March 26,
	25,	26,	25,	2006
	2007	2006	2007	
	(in thousands)			
Balance at beginning of period	\$ 46,054	\$ 30,231	\$ 34,701	\$ 35,802
Warranties issued during the period	13,421	11,554	43,760	27,909
Settlements made during the period	(9,264)	(6,037)	(23,563)	(16,769)
Expirations and change in liability for pre-existing warranties during the period	(3,568)	(3,554)	(8,255)	(14,748)
Balance at end of period	\$ 46,643	\$ 32,194	\$ 46,643	\$ 32,194

NOTE 14 DERIVATIVE INSTRUMENTS AND HEDGING

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

The Company's policy is to attempt to minimize short-term business exposure to foreign currency exchange rate risks using an effective and efficient method to eliminate or reduce such exposures. In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. To protect against the reduction in value of forecasted Japanese Yen-denominated revenues, the Company has instituted a foreign currency cash flow hedging program. The Company enters into foreign currency forward exchange rate contracts that generally expire within 12 months, and no later than 24 months. These foreign currency forward exchange contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in revenue in the same period the hedged revenue is recognized.

Each period, hedges are tested for effectiveness using regression testing. There were no gains or losses during the three and nine months ended March 25, 2007 and March 26, 2006 associated with ineffectiveness or forecasted transactions that failed to occur. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to the derivative instrument and the hedged item. These include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows will be measured.

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To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. When derivative instruments are designated and qualify as effective cash flow hedges, the Company is able to defer changes in the fair value of the hedging instrument within accumulated other comprehensive income (loss) until the hedged exposure is realized. Consequently, with the exception of hedge ineffectiveness recognized, the Company's results of operations are not subject to fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that the underlying hedged forecasted transactions would occur, the Company may not be able to account for its investments in derivative instruments as cash flow hedges. If this were to occur, future changes in the fair values of the Company's derivative instruments would be recognized in earnings without the benefits of offsets or deferrals of changes in fair value arising from hedge accounting treatment. At March 25, 2007, the Company expects to reclassify the entire amount of \$0.7 million of losses accumulated in other comprehensive income to earnings during the next 12 months due to the recognition in earnings of the hedged forecasted transactions.

The Company also enters into foreign currency forward exchange rate contracts to hedge the gains and losses generated by the remeasurement of Japanese Yen-denominated receivable balances. Under SFAS No. 133, these forward contracts are not designated for hedge accounting treatment. Therefore, the change in fair value of these derivatives is recorded into earnings as a component of other income and expense and offsets the change in fair value of the foreign currency denominated intercompany and trade receivables, recorded in other income and expense, assuming the hedge contract fully covers the intercompany and trade receivable balances.

NOTE 15 STOCK REPURCHASE PROGRAM

In October 2004, the Company announced that its Board of Directors had authorized the repurchase of up to \$250 million of Company common stock from the public market or in private purchases. The terms of the repurchase program permitted the Company to repurchase shares through September 30, 2007. In August 2005, the Company announced that its Board of Directors had authorized the repurchase of an additional \$500 million of the Company's common stock from the public market or private purchase. The terms of the repurchase program permit the Company to repurchase shares through September 30, 2008. In February 2007, the Company announced that its Board of Directors had authorized the repurchase of up to an additional \$750 million of the Company's common stock from the public market or private purchase. The terms of the repurchase program permit the Company to repurchase shares at a pace determined by management. The Company plans to repurchase both the amount remaining in the previous repurchase approval and the amount in this new repurchase approval according to the Board authorizations. Share repurchases under the authorizations were as follows:

Period	Total Number of Shares Repurchased	Total Cost of Repurchase (in thousands, except per share data)	Average Price Paid Per Share	Remaining Amount
				Available Under the Repurchase Programs
As of June 25, 2006	12,833	\$ 418,292	\$ 32.59	\$ 331,708
Quarter Ending September 24, 2006				
Quarter Ending December 24, 2006	1,447	75,012	51.83	\$ 256,696
Additional authorization of up to \$750 million February 2007				\$ 1,006,696
Quarter Ending March 25, 2007	5,214	238,690	45.78	\$ 768,006
Total	19,494	\$ 731,994	\$ 37.55	

In addition to shares repurchased under Board authorized repurchase programs shown above, during the nine months ended March 25, 2007, the Company withheld 37,226 shares through net share settlements upon the vesting of restricted stock unit awards under the Company's equity compensation plans to cover tax withholding obligations.

Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Certain, but not all, of the forward-looking statements in this report are specifically identified. The identification of certain statements as forward-looking is not intended to mean that other statements not specifically identified are not forward-looking. Forward-looking statements include, but are not limited to, statements that relate to our future revenue, product development, demand, acceptance and market share, competitiveness, gross margins, levels of research and development (R&D), outsourcing plans and operating expenses, tax expenses, our management's plans and objectives for our current and future operations, management's plans for repurchasing Company stock pursuant to the authorization of our Board, the levels of customer spending or R&D activities, general economic conditions, our ability to scale up our operations to meet increased customer demand and to efficiently integrate and manage our new silicon growing and fabrication assets following completion of its acquisition, 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, but not limited to, those discussed below under the heading Risk Factors within Item 1A of this report and other documents we file from time to time with the Securities and Exchange Commission (SEC), such as our last filed Annual Report on Form 10-K for the fiscal year ended June 25, 2006, our quarterly reports on Form 10-Q, and our current reports on Form 8-K. Such risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed herein and in ways not readily foreseeable. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on information currently and reasonably known to us. We undertake no obligation to release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances which occur after the date hereof or to reflect the occurrence or effect of anticipated or unanticipated events.

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

For a full understanding of our financial position and results of operations for the three and nine months ended March 25, 2007, this discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes presented in this Form 10-Q and the financial statements and notes in our last filed Annual Report on Form 10-K as of June 25, 2006 and Form 10-Q for the three and six months ended December 24, 2006.

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Today's leading indicators of changes in customer investment patterns may not be any more reliable than in prior years. Demand for our equipment can vary significantly from period to period as a result of various factors, including, but not limited to, economic conditions, supply, demand, and prices for semiconductors, customer capacity requirements, and our ability to develop and market competitive products. For these and other reasons, our results of operations for the three and nine months ended March 25, 2007 may not necessarily be indicative of future operating results.

Management's Discussion and Analysis of Financial Condition and Results of Operations consists of the following sections:

Executive Summary provides a summary of key highlights of our results of operations

Results of Operations provides an analysis of operating results

Critical Accounting Policies and Estimates discusses accounting policies that reflect the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements

Liquidity and Capital Resources provides an analysis of cash flows, contractual obligations and financial position

Table of Contents*Executive Summary*

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

The following summarizes certain key quarterly financial information for the periods indicated below:

	Three Months Ended		
	March 25, 2007	December 24, 2006	March 26, 2006
	(in thousands, except per share data and percentages)		
Revenue	\$650,270	\$633,400	\$437,423
Gross margin	326,245	322,916	219,654
Gross margin as a percent of total revenue	50.2%	51.0%	50.2%
Net income	164,741	167,326	86,337
Diluted earnings per share	\$ 1.15	\$ 1.15	\$ 0.60

March 2007 quarter revenues increased 3% sequentially to \$650.3 million and 49% year over year.

March 2007 quarter shipments were marginally stronger than anticipated at approximately \$620 million, representing a 4% decrease compared with the December 2006 quarter.

Gross margin as a percent of revenues of 50.2% was consistent with our guidance.

Operating expenses during the March 2007 quarter increased as planned by approximately \$9 million compared to the December 2006 quarter, with the majority of the increase in research and development, reflecting increased headcount, merit increases, seasonally higher payroll taxes and increased equity compensation due to our restricted stock unit (RSU) focal grant which occurred during the March 2007 quarter. Our market share driven revenue growth combined with our operational execution resulted in an operating margin of 29.1% which exceeded expectations. The year over year increase in operating expenses of \$27.9 million, or 25%, was due to increases in headcount, merit, incentive-based compensation on higher profits, equity-based compensation, and other R&D investments necessary to support our market share plans and product growth objectives.

Equity-based compensation expense recognized during the March 2007 quarter in cost of goods sold and operating expenses was \$1.9 million and \$9.0 million, respectively.

Cash flows from operating activities during the nine months ended March 25, 2007 were \$530.1 million on net income of \$515.6 million, representing approximately 28% of revenues.

Table of Contents**RESULTS OF OPERATIONS****Shipments**

	Three Months Ended March 25, 2007
Shipments (in millions)	\$ 620
North America	13%
Europe	8%
Asia Pacific	32%
Korea	36%
Japan	11%

Shipments for the March 2007 quarter slightly exceeded our expectations and decreased 4% sequentially. During the March 2007 quarter, 300 millimeter applications represented approximately 85% of total systems shipments, and 95% of total systems shipments were for applications at less than or equal to the 90 nanometer technology node. We classify total systems shipments market segmentation for the March quarter as Memory at approximately 78%, IDM Logic at 12% and Foundry at 10%.

We expect shipments for the June 2007 quarter to be up 10% to 15% sequentially. This expectation is a forward-looking statement and actual results could differ materially as a result of certain factors as referred to on page 17 of this Quarterly Report on Form 10-Q.

Revenue

	Three Months Ended			Nine Months Ended	
	March 25, 2007	December 24, 2006	March 26, 2006	March 25, 2007	March 26, 2006
Revenue (in thousands)	\$650,270	\$633,400	\$437,423	\$1,888,057	\$1,116,575
North America	16%	17%	15%	16%	14%
Europe	7%	10%	13%	10%	12%
Asia Pacific	37%	37%	28%	38%	29%
Korea	28%	20%	29%	21%	23%
Japan	12%	16%	15%	15%	22%

Revenue for the March 2007 quarter was at the high end of our expectations and increased 3% sequentially. The increase in revenues both sequentially and year over year is correlated to the amounts of previously reported shipments and our acceptance timelines. The overall Asia region continues to account for a significant percentage of our revenues as a substantial proportion of the worldwide capacity additions for semiconductor manufacturing continues to occur in this region. Our deferred revenue balance decreased to \$277.0 million as of March 25, 2007 compared to \$284.4 million at December 24, 2006. This change reflects shipments of approximately \$620 million, a net change in the value of previously made shipments to Japanese customers of approximately \$15 million, \$8 million in services/other, offset by revenue of \$650 million. The anticipated future revenue value of orders shipped to Japanese customers that are not recorded as deferred revenue was approximately \$49 million as of March 25, 2007; these shipments are classified as inventory at cost until title transfers.

Our current estimate for revenues for the June 2007 quarter ranges from \$655 million to \$675 million. This expectation is a forward-looking statement and actual results could differ materially as a result of certain factors as referred to on page 17 of this Quarterly Report on Form 10-Q.

Table of Contents**Gross Margin**

	Three Months Ended			Nine Months Ended	
	March 25, 2007	December 24, 2006	March 26, 2006	March 25, 2007	March 26, 2006
	(in thousands, except percentages)			(in thousands, except percentages)	
Gross Margin	\$326,245	\$322,916	\$219,654	\$962,325	\$553,243
Percent of total revenue	50.2%	51.0%	50.2%	51.0%	49.5%

Gross margin as a percent of revenue during the March 2007 quarter was 50.2% and essentially met our guidance. The sequential reduction in gross margin of 80 basis points reflects higher salary and benefits costs due to the impact of merit increases, seasonally high payroll taxes, the recent all employee RSU focal grants, and the final stages of implementing our consumable spare parts price reduction strategy focused on preserving and building market share through supporting our customers cost reduction roadmaps. Gross margin as a percent of revenue for the three months ended March 25, 2007 as compared to the same period in the prior year was flat with improved factory utilization offset by increased incentive-based and equity-based compensation as well as unfavorable customer/product mix. The increase in gross margin as a percent of revenue for the nine months ended March 25, 2007 as compared to the same period in the prior year was primarily driven by improved utilization of factory and field resources on higher business volumes.

We expect gross margin as a percent of revenue will be approximately 50% in the June 2007 quarter. This expectation is a forward-looking statement and actual results could differ materially as a result of certain factors as referred to on page 17 of this Quarterly Report on Form 10-Q.

Research and Development

	Three Months Ended			Nine Months Ended	
	March 25, 2007	December 24, 2006	March 26, 2006	March 25, 2007	March 26, 2006
	(in thousands, except percentages)			(in thousands, except percentages)	
Research & Development (R&D)	\$75,064	\$69,060	\$61,083	\$205,747	\$168,067
Percent of total revenue	11.5%	10.9%	14.0%	10.9%	15.1%

We continue to invest significantly in research and development focused on leading-edge plasma etch and our portfolio of new products. The growth in R&D expenses during the March 2007 quarter compared to the December 2006 quarter includes an increase of \$2 million in outside services and engineering material supplies which reflects the expensing of certain materials associated with evaluation units for our customers, \$2 million in equity-based compensation due to our RSU focal grant in the March 2007 quarter, and \$2 million in increased salary and benefits primarily due to planned increases in headcount and seasonally high payroll taxes. R&D expenses during the three months ended March 25, 2007 compared with the same period in the prior year grew as expected and included increases of approximately \$6 million in engineering material supplies and outside services targeting new and etch-adjacent product growth opportunities, \$4 million in increased salary and benefit costs for planned increases in headcount and employee base compensation, \$2 million in equity-based compensation, and approximately \$2 million in incentive-based compensation driven by higher profit levels. The increase in R&D expenses during the nine months ended March 25, 2007 compared with the same period in the prior year included expected increases of approximately \$13 million in engineering material supplies and outside services which are targeted at our existing and new product growth objectives, \$13 million in increased salary and benefit costs for planned increases in headcount and employee base compensation, \$6 million in incentive-based compensation driven by higher profit levels, and approximately \$3 million in equity-based compensation.

Table of Contents***Selling, General and Administrative***

	Three Months Ended			Nine Months Ended	
	March 25, 2007	December 24, 2006	March 26, 2006	March 25, 2007	March 26, 2006
	(in thousands, except percentages)			(in thousands, except percentages)	
Selling, General & Administrative (SG&A)	\$62,208	\$ 59,351	\$48,303	\$178,267	\$138,317
Percent of total revenue	9.6%	9.4%	11.0%	9.4%	12.4%

The sequential growth in SG&A expenses during the March 2007 quarter included an increase of approximately \$3 million in salary and benefits cost for planned increases in headcount targeted at providing the necessary infrastructure and capability to support our growth. The increase in SG&A expenses during the three months ended March 25, 2007 compared to the same period in the prior year was driven by growth in salary and benefit costs of approximately \$5 million for planned increases of headcount and employee base compensation, \$4 million in incentive-based compensation triggered by higher profits, and \$2 million in equity-based compensation. The increase in SG&A expenses during the nine months ended March 25, 2007 compared to the same period in the prior year was driven by increases in salary and benefit costs of approximately \$12 million for planned increases of headcount and employee base compensation, and approximately \$18 million in incentive-based compensation triggered by higher profits.

Other Income, net

Other income, net consisted of the following:

	Three Months Ended			Nine Months Ended	
	March 25, 2007	December 24, 2006	March 26, 2006	March 25, 2007	March 26, 2006
	(in thousands)			(in thousands)	
Interest income	\$ 18,941	\$ 20,440	\$ 10,715	\$ 58,750	\$ 25,812
Interest expense	(4,185)	(5,000)	(112)	(14,345)	(279)
Foreign exchange gains (losses)	330	(2,437)	(1,548)	(1,776)	1,604
Favorable legal judgment				15,834	
Charitable contributions			(1,000)		(1,000)
Other, net	(335)	89	(227)	(272)	(513)
	\$ 14,751	\$ 13,092	\$ 7,828	\$ 58,191	\$ 25,624

The decrease in interest income during the quarter ended March 25, 2007 as compared with the quarter ended December 24, 2006 was due to decreases in average cash and investment balances attributable to significant outflows including share repurchases of approximately \$239 million and the repayment of \$50 million of our long-term debt during the March 2007 quarter, exceeding our net cash provided by operating activities of approximately \$151 million during the March 2007 quarter. The increase in interest income for the quarter and nine months ended year over year is due to increases in average cash and investment balances.

The decrease in interest expense during the quarter ended March 25, 2007 as compared with the quarter ended December 24, 2006 was due to the repayment of our long-term debt noted above in addition to a \$50 million repayment made during the quarter ended December 24, 2006. The increase in interest expense for the quarter and nine months ended year over year was due to the \$350 million of long-term debt entered into by our wholly-owned subsidiary on June 16, 2006 to facilitate the repatriation of foreign earnings under the American Jobs Creation Act.

The balance of our long-term debt was \$250 million as of March 25, 2007.

The foreign exchange gains and losses are primarily related to foreign currency exchange rate fluctuations on our foreign currency denominated liabilities with non-U.S. dollar functional subsidiaries. Foreign currency movements were essentially neutral during the March 2007 quarter. The foreign exchange loss during the December 2006 quarter was due to the weakening of the U.S. dollar against certain currencies, primarily the Euro and Taiwan dollar. The loss for the nine months ended March 2007 consisted of a loss for the December 2006 quarter stated above, partially offset by gains during the March 2007 and September 2006 quarters where the U.S. dollar strengthened against various foreign currencies. The foreign exchange loss during the March 2006 quarter was due to the weakening of the U.S. dollar against certain foreign currencies, primarily the Taiwan dollar. The gains for the nine months ended March 26, 2006 consisted of the loss for the March 2006 quarter noted above, offset by gains during the December 2005 and September 2005 quarters where the dollar strengthened against certain foreign currencies, primarily the Taiwan dollar. A description

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of our exposure to foreign currency exchange rates can be found in the Risk Factors section of this Form 10-Q under the heading Our future Success Depends on International Sales and Management of Global Operations.

The legal judgment of \$15.8 million during the quarter ended September 24, 2006 was obtained in a lawsuit filed by us alleging breach of purchase order contracts by one of our customers. The Supreme Court of California denied review of lower and appellate court judgments in favor of Lam during the quarter ended September 24, 2006.

Income Tax Expense

Our effective tax rate for the three and ninth months ended March 25, 2007 was 19.1% and 19.0%, respectively. Included in the tax expense for the quarter ended March 25, 2007 were discrete events with a net tax benefit of \$3.8 million related to the filing of our U.S. and certain foreign income tax returns. Included in income tax expense for the nine months ended March 25, 2007 is the \$3.8 million noted above and the following discrete events during the September 2006 and December 2006 quarters: (1) we recognized a tax benefit of \$39.5 million from the reversal of tax reserves and an increase in net operating loss carryforward upon finalized negotiations on certain transfer pricing items, (2) we recorded tax expense of \$29.5 million related to the application of foreign tax rulings, and (3) we recorded a \$4.8 million tax benefit related to the extension of the federal research credit as it pertains to our fiscal year 2006.

Our effective tax rates for the three and ninth months ended March 26, 2006 were 26.9% and 21.6%, respectively. During the quarter ended March 26, 2006, we recorded tax expense of \$7.4 million associated with the decision to repatriate up to \$150 million of foreign earnings under the provisions of the American Jobs Creation Act.

The overall change in the effective tax rate in all periods above is impacted by the jurisdictional mix of income and the election of certain benefits within our negotiated tax holiday.

Our effective tax rate is based on our current profitability outlook and our expectations of earnings from operations in various tax jurisdictions throughout the world. We have implemented strategies to, in the longer term, limit our tax liability on the sale of our products worldwide. These tax strategies are structured to align the asset ownership and functions of our various legal entities around the world with our forecasts of the level, timing and sources of future revenues and profits.

Deferred Income Taxes

We had gross deferred tax assets, related primarily to reserves and accruals that are not currently deductible, and tax credit carryforwards of \$111.0 million and \$119.2 million as of March 25, 2007 and June 25, 2006, respectively. The gross deferred tax assets were offset by deferred tax liabilities of \$27.6 million and \$27.1 million as of March 25, 2007 and June 25, 2006.

Deferred tax assets as of March 25, 2007 decreased by \$8.7 million compared to June 25, 2006 primarily due to the utilization of net operating losses and tax credits. Other items impacting the net deferred tax assets included adjustments for previously estimated tax liabilities upon the filing of income tax returns in various jurisdictions, the impact of certain elections related to foreign tax rulings, the conclusion of negotiations on certain transfer pricing items, and the incremental tax benefit related to stock-based compensation deductions.

Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, then the previously provided valuation allowance would be reversed. We continue to evaluate the realizability of our deferred tax assets quarterly and will assess the need for additional valuation allowances, if any, in subsequent quarters.

Table of Contents***Critical Accounting Policies and Estimates***

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

We believe that the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

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

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

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

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

than our projections, additional inventory write-downs may be required, and would be reflected in cost of sales in the period the revision is made.

Warranty : Typically, the sale of semiconductor capital equipment includes providing parts and service warranty to customers as part of the overall price of the system. We offer standard warranties for our systems that run generally for a period of 12 months from system acceptance, not to exceed 14 months from shipment of the system to the customer. When appropriate, we record a provision for estimated warranty expenses to cost of sales for each system upon revenue recognition. The amount recorded is based on an analysis of historical activity, which uses factors such as type of system, customer, geographic region, and any known factors such as

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tool reliability trends. All actual parts and labor costs incurred in subsequent periods are charged to those established reserves through the application of detailed project record keeping.

Actual warranty expenses are incurred on a system-by-system basis, and may differ from our original estimates. While we periodically monitor the performance and cost of warranty activities, if actual costs incurred are different than our estimates, we may recognize adjustments to provisions in the period in which those differences arise or are identified. We do not maintain general or unspecified reserves; all warranty reserves are related to specific systems.

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

Equity-based Compensation Employee Stock Purchase Plan and Employee Stock Plans : We account for our employee stock purchase plan (ESPP) and stock plans under the provisions of SFAS No. 123R. SFAS No. 123R requires the recognition of the fair value of equity-based compensation in net income. The fair value of our restricted stock units was calculated based upon the fair market value of Company stock at the date of grant. The fair value of our stock options and ESPP awards was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections in adopting and implementing SFAS No. 123R, including expected stock price volatility and the estimated life of each award. The fair value of equity-based awards is amortized over the vesting period of the award, and we have elected to use the straight-line method for awards granted after the adoption of SFAS No. 123R and continue to use a graded vesting method for awards granted prior to the adoption of SFAS No. 123R.

We make quarterly assessments of the adequacy of our tax credit pool to determine if there are any deficiencies which require recognition in our consolidated statements of operations. As a result of the adoption of SFAS No. 123R, we will only recognize a benefit from stock-based compensation in paid-in-capital if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized. In addition, we have elected to account for the indirect benefits of stock-based compensation on the research tax credit and the extraterritorial income deduction through the income statement (continuing operations) rather than through paid-in-capital. We have also elected to net deferred tax assets and the associated valuation allowance related to net operating loss and tax credit carryforwards for the accumulated stock award tax benefits determined under APB No. 25 for income tax footnote disclosure purposes. We will track these stock award attributes separately and will only recognize these attributes through paid-in-capital in accordance with Footnote 82 of SFAS No. 123R.

Income Taxes: Deferred income taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, then the previously provided valuation allowance would be reversed.

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

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

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

Goodwill and Intangible Assets: We account for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (SFAS No. 142). SFAS No. 142 requires that goodwill and identifiable intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or

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Disposal of Long-Lived Assets. We review goodwill for impairment at least annually. In addition, we review goodwill and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS No. 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including interim periods, for that fiscal year. We are currently evaluating the impact, if any, of the adopting the provisions of SFAS No. 157 on our financial position, results of operations and liquidity.

In July 2006, the FASB issued FASB Interpretation Number 48, Accounting for Income Tax Uncertainties (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. Any differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. We are currently in the process of determining the impact, if any, of adopting the provisions of FIN 48 on our financial position, results of operations and liquidity.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

As of March 25, 2007, we had \$1.5 billion in gross cash and cash equivalents, short-term investments, and restricted cash and investments (total cash and investments) which is generally consistent with the balance as of June 25, 2006. Cash provided by operating activities during the nine months ended March 25, 2007 was \$530.1 million, representing 28% of revenues, and proceeds from the issuance of common stock were \$41.6 million. These inflows were offset by share repurchases of \$315.3 million, approximately \$177 million to fund the acquisition of the silicon growing and silicon fabrication assets of Bullen Ultrasonics, Inc. (Bullen), \$100.0 million repayment of our long-term debt, and capital expenditures totaling \$45.7 million.

Cash Flows From Operating Activities

Net cash provided by operating activities of \$530.1 million during the nine months ended March 25, 2007, consisted of (in millions):

Net income	\$ 515.6
Non-cash charges:	
Depreciation and amortization	27.2
Equity-based compensation	23.8
Net tax benefit on equity-based compensation plans	15.3
Decrease in deferred tax assets	8.7
Change in other working capital accounts	(60.5)
	\$ 530.1

Significant changes in working capital accounts, excluding amounts acquired from Bullen, during the nine months ended March 25, 2007 included increases in accounts receivable of \$54.0 million reflecting the growth of our business, inventories grew \$48.3 million on increased business volume, and other current assets increased \$34.9 million primarily due to certain supply prepayments and taxes receivable. These changes were partially offset by an increase in accounts payable of \$34.3 million, deferred profit of \$26.0 million and accrued liabilities growth of \$15.0 million which was primarily driven by an increase in accrued compensation.

Cash Flows from Investing Activities

Net cash used for investing activities during the nine months ended March 25, 2007 was \$607.6 million and consisted of the acquisition of Bullen assets of \$177.1 million, net purchases of short-term investments of \$494.9 million, and capital expenditures of \$45.7 million. We also reclassified \$110.0 million from restricted cash and investments due to the repayment of \$100.0 million during the nine months ended March 25, 2007 of our long-term debt.

Cash Flows from Financing Activities

Net cash used for financing activities during the nine months ended March 25, 2007 was \$339.3 million, driven by share repurchases of \$315.3 million and payments on long-term debt and capital leases of \$100.1 million. These uses were partially offset by net proceeds from issuance of common stock related to employee equity-based plans of \$41.6 million and the excess tax benefit on equity-based compensation plans of \$34.5 million which represents the proportion of the tax benefit measured against equity compensation recognized.

During the nine months ended March 25, 2007, we repurchased approximately 6.7 million shares of common stock for a total price of \$313.7 million under the Board authorized repurchase programs. As of March 25, 2007, the total amount remaining available for repurchase under Board authorization was \$768.0 million. We expect to continue to repurchase shares consistent with the Board authorizations, the level of which will be determined by factors, including but not limited to, the needs of the business and the stock price and daily trading volumes of our stock.

Given the cyclical nature of the semiconductor equipment industry, we believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in R&D and capital infrastructure. Based upon our current business outlook, our levels of cash, cash equivalents, and short-term investments at March 25, 2007 are expected to be sufficient to support our presently anticipated levels of operations, investments, debt service

requirements, and capital expenditures, through at least the next 12 months.

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

Commitments

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

	Operating Leases	Purchase Obligations	Long-term Debt and Interest Expense	Total
	(in thousands)			
Payments due by period:				
Less than 1 year	\$ 13,273	\$ 171,792	\$ 13,918	\$ 198,983
1-3 years	81,682	61,149	27,686	170,517
3-5 years	1,866	30,934	267,306	300,106
Over 5 years	1,791	40,273		42,064
Total	\$ 98,612	\$ 304,148	\$ 308,910	\$ 711,670

Operating Leases

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

Included in the operating leases 1-3 years section of the table above is \$75.0 million in guaranteed residual values for lease agreements relating to certain properties at our Fremont, California campus. As part of the lease agreements, we have the option to purchase the remaining buildings at any time for a total purchase price for all remaining properties related to these leases of approximately \$85.0 million. We are required to guarantee the lessor a residual value on the properties of up to \$75.0 million at the end of the lease terms in fiscal year 2008 (in the event that the leases are not renewed, we do not exercise the purchase options, the lessor sells the properties and the sale price is less than the lessor's costs). We maintain cash collateral of \$85.0 million as part of the lease agreements as of March 25, 2007 in separate, specified certificates of deposit and interest-bearing accounts which are recorded as restricted cash and investments in our Condensed Consolidated Balance Sheet. The lessor under the lease agreements is a substantive independent leasing company that does not have the characteristics of a variable interest entity (VIE) as defined by FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* and is therefore not consolidated by us.

The remaining operating lease balances primarily relate to non-cancelable facility-related operating leases.

Purchase Obligations

Purchase obligations consist of significant contractual obligations either on an annual basis or over multi-year periods related to our outsourcing activities or other material commitments, including vendor-consigned inventories.

We continue to enter into new agreements and maintain existing agreements to outsource certain activities, including elements of our manufacturing, warehousing, logistics, facilities maintenance, certain information technology functions, and certain transactional general and administrative functions. The contractual cash obligations and commitments table presented above contains our minimum obligations at March 25,

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2007 under these arrangements and others. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to these obligations, certain of these agreements include early termination provisions and/or cancellation penalties which could increase or decrease amounts actually paid.

Consignment inventories, which are owned by vendors but located in our storage locations and warehouses, are not reported as our inventory until title is transferred to us or our purchase obligation is determined. At March 25, 2007, vendor-owned inventories held at our locations and not reported as our inventory were \$27.5 million.

Long-Term Debt and Interest Expense

On June 16, 2006, our wholly-owned subsidiary, Lam Research International SARL (LRI), as borrower, entered into a \$350 million Credit Agreement (the Credit Agreement). Under the Credit Agreement, on June 19, 2006, LRI borrowed \$350 million in principal amount. The loan under the Credit Agreement shall be fully repaid not later than five years following the closing date and will bear interest at LIBOR plus a spread (applicable margin) ranging from 0.10% to 0.50%, depending upon a consolidated leverage ratio, as defined in the Credit Agreement. The initial applicable margin under the Credit Agreement was 0.10%. LRI may prepay the loan under the Credit Agreement in whole or in part at any time without penalty, subject to reimbursement of lenders' breakage and redeployment costs in certain cases. The amounts in the table above include the remaining principal payment of \$250 million due on June 19, 2011 and interest payments estimated based on the current LIBOR rate of 5.365% and applicable margin of ten basis points. \$100.0 million of the original \$350.0 million debt was repaid during the nine months ended March 25, 2007. The fair value of long-term debt approximates its carrying value due to the variable interest rate applicable to the debt.

We used the proceeds from the credit facility entered into by LRI to facilitate a portion of the repatriation of \$500 million of foreign earnings in fiscal year 2006 under the provisions of the American Jobs Creation Act.

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 25, 2006.

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

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ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Exchange Act Rule 13a-15(b), as of March 25, 2007, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer, concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

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

Changes in Internal Control over Financial Reporting

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

Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

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ITEM 1A. Risk Factors

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

Our Quarterly Revenues and Operating Results are Unpredictable

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

economic conditions in the electronics and semiconductor industry generally and the equipment industry specifically;

the extent that customers use our products and services in their business;

timing of customer acceptances of equipment;

the size and timing of orders from customers;

customer cancellations or delays in our shipments, installations, and/or acceptances;

changes in average selling prices and product mix;

our ability in a timely manner to develop, introduce and market new, enhanced and competitive products;

our competitors' introduction of new products;

legal or technical challenges to our products and technology;

changes in import/export regulations;

transportation, communication, demand, information technology or supply disruptions based on factors outside our control such as acts of God, wars, terrorist activities and natural disasters;

legislative, tax, accounting, or regulatory changes or changes in their interpretation;

procurement shortages;

manufacturing difficulties;

the failure of our suppliers or outsource providers to perform their obligations in a manner consistent with our expectations;

changes in our estimated effective tax rate;

new or modified accounting regulations; and

exchange rate fluctuations.

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

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

System sales constitute a significant portion of our total revenue. Our systems can typically range in price up to approximately \$6.0 million per unit, and our revenues in any given quarter are dependent upon the acceptance of a rather limited number of such systems. As a result, the inability to declare revenue on even a few systems can cause a significant adverse impact on our revenues for that quarter.

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

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

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

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

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

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

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

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

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

We derive a substantial percentage of our revenues from a limited number of products, and we expect these products to continue to account for a large percentage of our revenues in the near term. Continued market acceptance of these 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;

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export restrictions or other regulatory or legislative actions which limit our ability to sell those products to key customer or market segments;

an improved version of products being offered by a competitor in the market we participate in;

increased pressure from competitors that offer broader product lines;

technological change that we are unable to address with our products; or

a failure to release new or enhanced versions of our products on a timely basis.

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

We Have a Limited Number of Key Customers

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

Strategic Alliances May Have Negative Effects on our Business

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

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

We Are Dependent Upon a Limited Number of Key Suppliers

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

Our Outsource Providers May Fail to Perform as We Expect

Outsource providers have played and will play key roles in our manufacturing operations and in many of our transactional and administrative functions, such as information technology, facilities management, and certain

elements of our finance organization. Although we aim at selecting reputable providers and secure their performance on terms documented in written contracts, it is possible that one or more of these providers could fail to perform as we expect and such failure could have an adverse impact on our business.

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In addition, the expansive role of outsource providers has required and will continue to require us to implement changes to our existing operations and to adopt new procedures to deal with and manage the performance of these outsource providers. Any delay or failure in the implementation of our operational changes and new procedures could adversely affect our customer relationships and/or have a negative effect on our operating results.

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

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

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

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

We believe that to remain competitive we will require significant financial resources to offer a broad range of products, to maintain customer service and support centers worldwide, and to invest in product and process R&D. Certain of our competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing, and customer service and support resources than we do and therefore have the potential to increasingly dominate the semiconductor equipment industry. These competitors may deeply discount or give away products similar to those that we sell, challenging or even exceeding our ability to make similar accommodations and threatening our ability to sell those products. For these reasons, we may fail to continue to compete successfully worldwide.

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

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

Non-U.S. sales accounted for approximately 86% in fiscal year 2006, 84% in fiscal year 2005 and 82% in fiscal year 2004 of our total revenue. We expect that international sales will continue to account for a significant portion of our total revenue in future years.

We are subject to various challenges related to the management of global operations, and international sales are subject to risks including, but not limited to:

trade balance issues;

economic and political conditions;

changes in currency controls;

differences in the enforcement of intellectual property and contract rights in varying jurisdictions;

our ability to develop relationships with local suppliers;

compliance with U.S. and international laws and regulations, including U.S. export restrictions;

fluctuations in interest and currency exchange rates;

the need for technical support resources in different locations; and

our ability to secure and retain qualified people for the operation of our business.

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

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

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

Our Financial Results May Be Adversely Impacted By Higher Than Expected Tax Rates Or Exposure To Additional Income Tax Liabilities

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. We are subject to income taxes in both the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. Our effective tax rate could be adversely affected by changes in the split of earnings between countries with differing statutory tax rates, in the valuation of deferred tax assets, or in tax laws or by material audit assessments, which could affect our profitability. In particular, the carrying value of deferred tax assets, which are

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predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability.

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

The adoption of SFAS No. 123(R) required us to expense all equity-based compensation provided to employees and directors beginning with our quarter ending September 25, 2005. The environment for skilled employees that are knowledgeable about our products and services is a competitive one, and we believe that equity-based compensation is an important part of the overall compensation that we offer to attract and retain such employees. SFAS No. 123(R) has decreased and will continue to decrease our earnings based on its measure of the value of equity-based compensation. There is some risk that the design of our compensation plans is ineffective at balancing our profitability and employee retention objectives.

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

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

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

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

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

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

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

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

general market, semiconductor, or semiconductor equipment industry conditions;

global economic fluctuations;

variations in our quarterly operating results;

variations in our revenues or earnings from levels experienced by other companies in our industry or forecasts by securities analysts;

announcements of restructurings, technological innovations, reductions in force, departure of key employees, consolidations of operations, or introduction of new products;

government regulations;

developments in, or claims relating to, patent or other proprietary rights;

success or failure of our new and existing products;

liquidity of Lam;

disruptions with key customers or suppliers; or

political, economic, or environmental events occurring globally or in any of our key sales regions.

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

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

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

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

Third parties may assert infringement, unfair competition or other claims against us. From time to time, other parties send us notices alleging that our products infringe their patent or other intellectual property rights. In addition, our Bylaws and indemnity obligations provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from

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their service to Lam. In such cases, it is our policy either to defend the claims or to negotiate licenses or other settlements on commercially reasonable terms. However, we may be unable in the future to negotiate necessary licenses or reach agreement on other settlements on commercially reasonable terms, or at all, and any litigation resulting from these claims by other parties may materially adversely affect our business and financial results. Moreover, although we seek to obtain insurance to protect us from claims and cover losses to our property, there is no guarantee that such insurance will fully indemnify us for any losses that we may incur.

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of each fiscal year. Furthermore, our independent registered public accounting firm (Firm) is required to attest to whether our assessment of the effectiveness of our internal control over financial reporting is fairly stated in all material respects and separately report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of the end of each fiscal year. We have successfully completed our assessment and obtained our Firm's attestation as to the effectiveness of our internal control over financial reporting as of June 25, 2006. In future years, if we fail to timely complete this assessment, or if our Firm cannot timely attest to our assessment, we could be subject to regulatory sanctions and a loss of public confidence in our internal control. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

Our Independent Registered Public Accounting Firm Must Confirm Its Independence in Order for Us to Meet Our Regulatory Reporting Obligations on a Timely Basis

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

Table of Contents**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(c) In October, 2004, we announced that our Board of Directors had authorized the repurchase of up to \$250 million of our common stock from the public market or in private purchases. The terms of the repurchase program permitted us to repurchase shares through September 30, 2007. In August, 2005, we announced that our Board of Directors had authorized the repurchase of an additional \$500 million of our common stock from the public market or private purchase. The terms of the repurchase program permit us to repurchase shares through September 30, 2008. In February 2007, we announced that our Board of Directors had authorized the repurchase of up to an additional \$750 million of our common stock from the public market or private purchase. The terms of the repurchase program permit us to repurchase shares at a pace determined by management. We plan to repurchase both the amount remaining in the previous repurchase approval and the amount in this new repurchase approval according to the Board authorizations. Share repurchases under the authorizations were as follows:

Period	Total Number of Shares Repurchased (1)	Average Price Paid per Share (in thousands, except per share data)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Remaining Amount Available Under the Repurchase Programs
As of December 24, 2006	14,311	\$ 34.55	14,280	\$ 256,696
December 25, 2006 - January 21, 2007	521	51.07	520	\$ 230,140
January 22, 2007 - February 18, 2007	1,748	45.28	1,744	\$ 151,160
Additional authorization of up to \$750 million February 2007				\$ 901,160
February 19, 2007 - March 25, 2007	2,952	45.14	2,950	\$ 768,006
Total	19,532	\$ 37.55	19,494	

(1) In addition to shares repurchased under Board authorized repurchase programs and included in this column are 6,939 shares which the Company withheld through net share settlements during the three months ended

March 25, 2007
upon the vesting
of restricted
stock unit
awards under
the Company's
equity
compensation
plans to cover
tax withholding
obligations.

ITEM 3. Defaults Upon Senior Securities

None.

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

None.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.107 Form of Restricted Stock Unit Award Agreement-Outside Directors (U.S. Agreement) Lam Research Corporation 2007 Stock Incentive Plan
- 10.108 Form of Restricted Stock Unit Award Agreement-Outside Directors (non-U.S. Agreement) Lam Research Corporation 2007 Stock Incentive Plan
- 10.109 Summary of Compensation Arrangement with Nicolas J. Bright, effective as of March 1, 2007.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
- 31.2 Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
- 32.1 Section 1350 Certification (Principal Executive Officer)
- 32.2 Section 1350 Certification (Principal Financial Officer)

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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: April 27, 2007

LAM RESEARCH CORPORATION
(Registrant)

/s/ Martin B. Anstice
Martin B. Anstice
*Senior Vice President, Chief Financial
Officer and Chief Accounting Officer*
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EXHIBIT INDEX

Exhibit Number	Description
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