Lam RESEARCH

Changing the Value Equation™

L A M   R E S E A R C H   C O R P O R A T I O N

PROXY STATEMENT AND 2004 ANNUAL REPORT TO SHAREHOLDERS

Mission

Lam is dedicated to the success of our customers by being a world-class provider of innovative productivity solutions to the semiconductor industry.

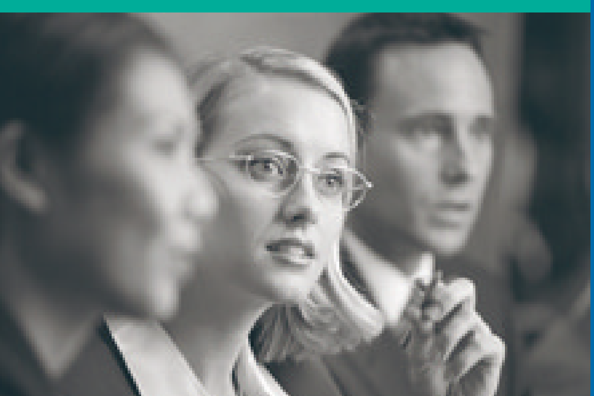
Vision

- **#1 in customer trust**
- **#1 in market share**
- **Company where successful people want to work**
- **Multi-product company**
- **Profitability levels to finance the productivity solutions our customers require**

Core Values

What we believe, practice, and reward

- **Achievement**
- **Honesty and integrity**
- **Innovation and continuous improvement**
- **Mutual trust and respect**
- **Open communication**
- **Ownership and accountability**
- **Teamwork**
- **Think: customer, company, individual**



Lam Research Corporation has been a leading producer of semiconductor manufacturing equipment for nearly 25 years. The Company's innovative semiconductor processing technologies empower customers to build the world's highest-performing integrated circuits. Lam maintains a worldwide network of facilities, employing more than 2,000 people.

LAM RESEARCH CORPORATION

Letter to Stockholders

October 8, 2004

Fellow Stockholders:

We are pleased to present to you this year's annual report.

For nearly 25 years, Lam Research Corporation has identified, developed, and introduced breakthrough technical solutions for the global semiconductor industry. In particular, Lam has delivered innovative etch capabilities that have enabled our customers to achieve their product roadmap goals and produce next-generation semiconductor devices.

As noted in prior reports, our focus has been on furthering our technical leadership, deepening our market penetration, and transforming our business model. In the pages that follow, you will see that this year's results mark the successful convergence of our efforts in these three areas.

Our technical leadership has been advanced by our engineering community, whom we believe to be the most highly qualified, innovative team developing etch and etch-related technologies and processes in the world. Our focus provides a robust environment for ideas to flourish and directly benefits our customers by keeping their priorities our priorities.

Every day, our customers rely on us to anticipate and solve technical challenges that impact their business. New materials, increasing device layers, decreasing linewidths, and a wafer size transition, taken together, present an unprecedented array of semiconductor processing challenges. Lam engineers and technologists are delivering etch capabilities that address these challenges, thus enabling critical advancements in semiconductor manufacturing and supporting our customers' business objectives. As our relevance to our customers increases, our market share in etch is expanding. More important, we continue to capture new business in leading-edge applications, which will translate to additional market share gains as we go forward. Our dedication to solving our customers' etch and etch-related challenges has been fundamental to our success.

From a financial perspective, we are delivering the best results in the Company's recent history. Our gross margin as a percentage of revenue demonstrates the strength of our business model. In addition, since the peak of the last cycle, we have generated approximately $400 million in cash from operations. This enabled us to repay in full, two years prior to maturity, our $300 million convertible bond, eliminating the only major source of debt on our balance sheet. Clearly, the profitability and asset management metrics of the Company are strong.

These achievements could not have been attained without the dedication, commitment, and innovative spirit of our employees. We commend them for this year's performance, and we look forward to building on these successes.

Sincerely,

JW Bagley　　　　Stephen G. Newberry

James W. Bagley
Chairman and Chief Executive Officer

Stephen G. Newberry
President and Chief Operating Officer

LAM RESEARCH CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held November 4, 2004

To the Stockholders:

NOTICE IS HEREBY GIVEN that the 2004 Annual Meeting of Stockholders of Lam Research Corporation, a Delaware corporation (the "Company" or "Lam"), will be held on Thursday, November 4, 2004, 11:00 a.m., local time, at the principal executive offices of the Company at 4650 Cushing Parkway, Fremont, California 94538, for the following purposes:

1. To elect directors to serve for the ensuing year, and until their successors are elected;
2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the fiscal year ending June 26, 2005; and
3. To transact such other business as may properly come before the meeting, or any adjournment thereof.

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

Only stockholders of record at the close of business on September 10, 2004, are entitled to notice of and to vote at the meeting, and for any adjournment thereof.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to vote by proxy via telephone, Internet, or mail in accordance with the voting instructions on the proxy card. If you vote by mail, mark, sign, and date the enclosed proxy and return it as promptly as possible in the postage-prepaid and return-addressed envelope enclosed for that purpose. However, any stockholder of record attending the meeting may vote in person, even if the stockholder has returned a proxy. Stockholders who wish to cast their votes at the meeting must attend in person. However, a simultaneous webcast will be available on Lam's web site at *www.lamrc.com* for stockholders who cannot attend in person and wish to listen to the Annual Meeting and any discussion by management immediately after its adjournment.

By Order of the Board of Directors,

George M. Schisler, Jr.
Assistant Secretary

Fremont, California
October 8, 2004

YOUR VOTE IS IMPORTANT

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

LAM RESEARCH CORPORATION

PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS
To Be Held November 4, 2004

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LAM RESEARCH CORPORATION

PROXY STATEMENT FOR 2004 ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited on behalf of Lam Research Corporation, a Delaware corporation (the "Company" or "Lam"), for use at the Annual Meeting of Stockholders to be held Thursday, November 4, 2004, at 11:00 a.m., local time (the "Annual Meeting"), or for any adjournment thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the principal executive offices of the Company at 4650 Cushing Parkway, Fremont, California 94538. The Company's telephone number at that location is (510) 572-0200. Stockholders who wish to cast their votes at the meeting must attend in person. For those stockholders who cannot attend in person and wish to listen to the proceedings, the Annual Meeting and any discussion by management after its adjournment will be available via simultaneous webcast. The webcast may be accessed via the Lam Internet web site (*www.lamrc.com*) by locating the link in the Investor Relations section of the web site.

These proxy solicitation materials will be mailed on or about October 8, 2004 to all stockholders entitled to vote at the meeting. A copy of Lam Research Corporation's 2004 Annual Report to Stockholders accompanies this Proxy Statement.

Record Date and Principal Share Ownership

Stockholders of record at the close of business on September 10, 2004, are entitled to receive notice of and to vote at the Annual Meeting. At the record date, 135,779,483 shares of the Company's Common Stock were outstanding.

Revocability of Proxies

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

Voting and Solicitation

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

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

On all other matters, each share has one vote.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspector of Elections (the "Inspector"). The Inspector will also determine whether or not a quorum is present. The six candidates for election as directors at the Annual Meeting who receive the highest number of affirmative votes will be elected. The approval of Proposal No. 2 (ratification of the independent registered public accounting firm for the Company for the current fiscal year) will require the affirmative vote of a majority of the shares of the Company's Common Stock present or represented and entitled to vote with respect to such matter. The final voting results will be made available on the Company's web site (*www.lamrc.com*) via the Investor Relations page within fourteen days after the Annual Meeting.

In general, Delaware law provides that a quorum consists of a majority of the shares entitled to vote at the Annual Meeting. Abstentions will be treated as shares that are present or represented and entitled to vote for purposes of determining the presence of a quorum but will not be treated as votes in favor of approving any matter submitted to the stockholders for a vote. Thus, abstentions will have the same effect in this regard as negative votes. Any proxy that is properly dated, executed, and returned using the method or form of proxy enclosed will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, the shares will be voted for the election of directors and for ratification of the appointment of the designated independent registered public accounting firm, and, with respect to any other matter or matters that may come before the meeting, as the proxy holders deem advisable in accordance with their reasonable judgment.

If a broker indicates on the enclosed proxy or its substitute that he or she does not have discretionary authority as to certain shares to vote on a particular matter ("broker non-votes"), or with respect to shares as to which proxy authority has been withheld with respect to a matter, those shares will be counted as present in determining whether a quorum for the meeting is present but will not be considered as present or represented with respect to that matter. Thus, once it is determined that a quorum is present at the Annual Meeting, broker non-votes will have no effect on either of the two proposals being voted on at the Annual Meeting. The Company believes that the tabulation procedures to be followed by the Inspector are consistent with the general statutory requirements in Delaware concerning voting of shares and determination of a quorum.

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

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

Stockholder Proposals to be Included in the Company's 2005 Proxy Statement

Pursuant to Rule 14a-8(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), some stockholder proposals may be eligible for inclusion in the Company's 2005 proxy statement. Any such proposal must be received by the Company no later than June 6, 2005. Stockholders interested in submitting such a proposal are advised to contact counsel familiar with the detailed requirements of the applicable securities rules.

Stockholder Proposals and Nominations to be Voted on at 2005 Annual Meeting

Stockholders of the Company may submit proposals, in addition to Rule 14a-8(e) proposals referred to above, that they believe should be voted on at an annual meeting or nominate persons for election to the Board of Directors (the "Board").

In accordance with the Company's bylaws, any such proposal or nomination for the 2005 annual meeting, currently scheduled for November 3, 2005, must be submitted in writing and received by the Secretary of the Company no earlier than August 4, 2005, and no later than September 4, 2005.

A stockholder's notice to the Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Company that are owned beneficially or of record by the person, and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder, (ii) the class or series and number of shares of capital stock of the Company that are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice, and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

Proposals or nominations that do not meet the requirements will not be entertained at the annual meeting. Submissions or questions should be sent to: George M. Schisler, Jr., Office of the Secretary, 4650 Cushing Parkway, Fremont, California 94538.

Stockholder nominations for director will be evaluated by Lam's Nominating/Governance Committee in accordance with substantially the same criteria and procedures as candidates identified by the Board, its Nominating/ Governance Committee, or other sources. See the section entitled *"Corporate Governance"* below.

PROPOSAL NO. 1
ELECTION OF DIRECTORS

Nominees

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

The Board, upon the recommendation of the Nominating/Governance Committee, has nominated the following individuals for election to the Board of Directors in accordance with the criteria and procedures discussed below in *"Corporate Governance."*

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

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

Nominees for Director	Age	Director Since	Principal Occupation and Business Experience During Past Five Years
James W. Bagley	65	1997	Mr. Bagley has been Chief Executive Officer and a director of the Company since the merger of Lam and OnTrak Systems, Inc. in August 1997. Effective September 1, 1998, he was appointed Chairman of the Board of Directors. From June 1996 to August 1997, Mr. Bagley served as Chairman of the Board and Chief Executive Officer of OnTrak. He was formerly Chief Operating Officer and Vice Chairman of the Board of Applied Materials, Inc., where he also served in other senior executive positions during his 15-year tenure. Mr. Bagley held various management positions at Texas Instruments, Inc., before he joined Applied Materials. Mr. Bagley is also currently a director of Micron Technology, Inc. and Teradyne, Inc.

Nominees for Director	Age	Director Since	Principal Occupation and Business Experience During Past Five Years
David G. Arscott [1,2]	60	1980	Mr. Arscott has been a director of the Company since 1980, and was Chairman of the Board of Directors from 1982 to 1984. He is currently, and has been since 1988, a General Partner of Compass Technology Partners, an investment management firm. From 1978 to 1988, Mr. Arscott was a Managing General Partner of Arscott, Norton & Associates, a venture capital firm.
Robert M. Berdahl [2,3]	67	2001	Dr. Berdahl has been a director of the Company since January 2001. He is the former Chancellor of the University of California, Berkeley, which position he held from 1997 to June 2004. From 1993 to 1997, Dr. Berdahl was President of the University of Texas at Austin, and from 1986 to 1993, he was Vice Chancellor of Academic Affairs of the University of Illinois at Urbana-Champaign. Dr. Berdahl is also currently a director of Internet-2.
Richard J. Elkus, Jr. [1,3]	69	1997	Mr. Elkus has been a director of the Company since August 1997. He is currently, and has been since 1996, Co-Chairman of Voyan Technology. From February 1994 until April 1997, Mr. Elkus was Vice Chairman of the Board of Tencor Instruments, Inc. From February 1994 to September 1996, Mr. Elkus was Executive Vice President of Tencor Instruments. He is also currently a director of KLA-Tencor Corporation, Virage Logic Corporation, and SOPRA S.A.
Jack R. Harris [2]	62	1982	Mr. Harris has been a director of the Company since 1982. Mr. Harris is currently, and since 1999 has been, Chairman of HT, Inc. and Innovative Robotics Solutions. From 1986 until September 1999, Mr. Harris was Chairman, Chief Executive Officer, and President of Optical Specialties, Inc. Mr. Harris is also currently a director of L-3 ILEX Systems and Metara, Inc.
Grant M. Inman [1,3]	62	1981	Mr. Inman has been a director of the Company since 1981. Mr. Inman is currently, and since 1998 has been, a General Partner of Inman Investment Management. From 1985 until 1998, Mr. Inman was a General Partner of Inman & Bowman, a venture capital investment partnership. Mr. Inman is also currently a director of Paychex, Inc. and Wind River Systems, Inc., and a Trustee of the University of California Berkeley Foundation.

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

(3) Member of Nominating/Governance Committee.

CORPORATE GOVERNANCE

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

Corporate Governance Policies and Practices

Lam has instituted a variety of policies and practices to foster and maintain responsible corporate governance, including the following:

Corporate Governance Guidelines — The Company adheres to written Corporate Governance Guidelines adopted by the Board and reviewed from time to time by the Nominating/Governance Committee, selected provisions of which are detailed below.

Corporate Code of Ethics — In 2004, the Company adopted a Code of Ethics that applies to all Lam employees, officers and members of the Board. A copy of the Code of Ethics is available on the Company's web site (*www.lamrc.com*) via the Investor Relations page.

Global Standards of Business Conduct Policy — The Company has codified its standards of business conduct applicable to its employees worldwide.

Board Committee Charters — Each of Lam's Audit, Compensation and Nominating/Governance Committees has written charters adopted by Lam's Board of Directors that establish practices and procedures for each committee in accordance with applicable corporate governance rules and regulations. Lam's Audit Committee and Nominating/Governance Committee Charters are available on the Company's web site (*www.lamrc.com*) via the Investor Relations page. The Nominating/Governance Committee Charter is also attached to this proxy statement in Appendix A.

Board Nomination Policies and Procedures

- **Board Membership Criteria** — Lam's Corporate Governance Guidelines provide that nominees for director are evaluated on the basis of a range of criteria, including (but not limited to) business and industry experience, wisdom, integrity, analytical ability, ability to make independent judgments, understanding of the Company's business and competitive environment, willingness and ability to devote adequate time to Board duties, and other appropriate considerations. No director shall be nominated or re-nominated after having attained the age of seventy-five years, and no director may serve on more than a total of four boards of public companies (including the Company's Board).
- **Nomination Procedure** — The Nominating/Governance Committee is responsible for identifying, evaluating, and recommending candidates for election to the Board, with due consideration for recommendations made by other Board members, the CEO, stockholders, and other sources. In addition to the above criteria, the Nominating/Governance Committee also considers the appropriate balance of experience, skills, and characteristics desirable among the members of the Board. The independent members of the Board review the Nominating/Governance Committee candidates and nominate candidates for election by the Company stockholders.

Director Independence

- **Requirements** — Lam's Corporate Governance Guidelines require that at least a majority of the Board shall be independent in accordance with Nasdaq rules and criteria for independence. In addition, no non-employee director may serve as a consultant or service provider to the Company without the approval of a majority of the independent directors.
- **Current Board Members** — The Board determined at its August 2004 meeting that the following directors are independent in accordance with Nasdaq criteria for director independence: David Arscott, Robert Berdahl, Richard Elkus, Jr., Grant Inman, and Jack Harris.
- **Board Committees** — All members of each of the Company's three standing committees — the Audit, Compensation, and Nominating/Governance Committees — are required to be independent in accordance with Nasdaq criteria. See *"Board Meetings and Committees"* below for a description of the responsibilities of the Board's standing committees.
- **Lead Independent Director** — Pursuant to the Corporate Governance Guidelines, the Board may designate an independent director as the Lead Independent Director. Upon appointment, the lead independent director is responsible for coordinating the activities of the independent members of the Board and acting as the principal liaison between the independent directors and the Chairman/CEO when necessary and appropriate. The Nominating/Governance Committee has recommended to the Board an independent director for appointment as Lead Independent Director. The Board expects to consider this recommendation at its November 2004 board meeting.
- **Executive Sessions of Independent Directors** — The Board and the Audit and Compensation Committees periodically hold meetings of only the independent directors or Committee members without management present.

Board Access to Independent Advisors

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

Board Training and Self-Assessment

- The Corporate Governance Guidelines provide that directors are expected to attend one or more training sessions or conferences to enhance their ability to fulfill their responsibilities. From time to time, the Nominating/Governance Committee conducts a review of the functioning of the Board and the Board committees.

Shareholder Communications with Board of Directors

- **Direct Communications** — Any stockholder desiring to communicate with the Board of Directors or with any director regarding the Company may write to the Board or the director, c/o George M. Schisler, Jr., Office of the Secretary, Lam Research Corporation, 4650 Cushing Parkway, Fremont, CA 94538. The Office of the Secretary will forward all such communications to the director(s). In addition, any stockholder, employee, or other person may communicate any complaint regarding any accounting, internal accounting controls, or auditing matter to the attention of the Board's Audit Committee by sending written correspondence to: Lam Research Corporation, Attention: Board Audit Committee, P.O. Box 5010, Fremont, CA 94536.
- **Annual Meeting** — The Company encourages and expects its directors to attend the annual meeting of stockholders each year. All of Lam's then-current directors attended the 2003 annual meeting.

Additional Policies and Practices

In addition to the measures discussed above, the Company maintains or has recently adopted various other policies and practices to promote responsible corporate governance, such as:

- Preparation of a plan of succession for the offices of the CEO and other senior executives.
- Periodic review of committee charters for each of the Audit, Compensation, and Nominating/Governance Committees which address corporate governance issues.
- Evaluation and approval of the CEO's compensation by the independent members of the Board, based on recommendations of the Compensation Committee.
- Evaluation and determination of the compensation of other executive officers by the Compensation Committee.
- Maintenance of disclosure control policies and procedures, including a Disclosure Control Committee.
- Maintenance of a Compliance Committee, composed of the CFO and other Company managers and staff, for the purpose of identifying and addressing securities regulation compliance matters.
- Maintenance of a procedure for receipt and treatment by the Audit Committee of anonymous and confidential employee complaints or concerns regarding audit or accounting matters.
- Comparison by the Board and its committees of the Company's corporate governance policies with industry best practices and those of its peers.
- Availability of final proxy vote results on the Lam web site promptly following final compilation of the voting results.

Board Meetings and Committees

The Board of Directors of the Company held a total of five regularly scheduled or special meetings during the fiscal year ended June 27, 2004. All of the directors attended at least 75% of the aggregate number of Board meetings and meetings of Board committees on which they are a member.

The Board of Directors has an Audit Committee, a Compensation Committee, and a Nominating/Governance Committee.

During fiscal year 2004, the Audit Committee consisted of Messrs. Arscott, Elkus, and Inman. All Audit Committee members are independent, non-employee directors. The Audit Committee held twelve meetings during fiscal 2004. The Audit Committee appoints and provides for the compensation of the Company's independent registered public accounting firm, oversees and evaluates the work and performance of the independent registered public accounting firm, reviews the scope of the audit, considers comments made by the independent registered public accounting firm with respect to accounting procedures and internal controls and the consideration given thereto by the Company's management, approves in accordance with applicable securities laws all professional services to be provided to the Company by its independent registered public accounting firm, reviews internal accounting procedures and controls with the Company's financial and accounting staff, oversees a procedure that provides for the receipt, retention and treatment of complaints received by the Company and for the confidential and anonymous submission by employees regarding questionable accounting or auditing matters, reviews and approves all related party transactions, and performs related duties as set forth in applicable securities laws, Nasdaq corporate governance guidelines, and the Committee charter. The Lam Board of Directors has determined that Mr. Elkus is an Audit Committee financial expert and that Mr. Elkus is independent in accordance with the Nasdaq criteria for director independence.

During fiscal year 2004, the Compensation Committee consisted of Messrs. Berdahl, Harris, and, beginning in May 2004, Mr. Arscott. All Compensation Committee members are independent, non-employee directors. The Compensation Committee held seven meetings during fiscal 2004. The Compensation Committee recommends the salary level, incentives, and other forms of compensation for the chief executive officer, subject to approval by the independent members of the Board; approves salary levels, incentives, and other forms of compensation for the other executive officers of the Company; administers the Company's various incentive compensation and benefit plans; recommends policies relating to such compensation and benefit plans; and reviews and recommends to the Board all compensation arrangements applicable to the members of the Board. This Committee also has authority with respect to grants of stock options, restricted stock, deferred stock, and performance share awards to officers and other employees of the Company.

During fiscal year 2004, the Nominating/Governance Committee consisted of Messrs. Berdahl, Elkus, and Inman. All Nominating/Governance Committee members are independent, non-employee directors. The Nominating/Governance Committee held three meetings during fiscal 2004. This Committee recommends, for approval by the independent members of the Board, nominees for election as directors of the Company. Pursuant to the Committee's charter and the Corporate Governance Guidelines, the Nominating/Governance Committee is also responsible for recommending the composition of Board committees for approval by the Board, reviewing and assessing the Corporate Governance Guidelines from time to time and recommending changes for approval by the Board, reviewing the functioning of the Board and its committees and reporting the evaluation to the Board, and reviewing the suitability of each director for continuing service on the Board.

In August 2004, the Nominating/Governance Committee recommended for Board approval, and the Board approved, the nominees for director of the Company as set forth in Proposal No. 1 above. The Nominating/Governance Committee recommended the nominees for director in accordance with the criteria and procedures set forth in *"Board Nomination Policies and Procedures."*

The Nominating/Governance Committee will consider for nomination persons properly nominated by stockholders in accordance with the same policies and criteria as are applied to other nominees. In order for the Nominating/Governance Committee to consider the nomination of a person submitted by a stockholder for next year's annual meeting, such nomination must be made in accordance with the Company's bylaws and other procedures described above in the section captioned, *"Stockholder Proposals and Nominations to be Voted on at 2005 Annual Meeting."*

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below sets forth the beneficial ownership of shares of Common Stock of the Company by: (i) each person or entity whom, based on information obtained, the Company believes beneficially owned more than 5% of the Company's Common Stock, and the address of each such person or entity ("5% stockholder"); (ii) each current director of the Company; (iii) each named executive officer ("named executive") described below in the section of this proxy statement captioned "Executive Compensation and Other Information"; and (iv) all current directors and current executive officers as a group. With the exception of 5% stockholders, the information below concerning the number of shares beneficially owned is provided with respect to holdings as of September 10, 2004 (the Record Date), and, with respect to the 5% stockholders, the information below is provided with respect to holdings as of June 30, 2004 (unless otherwise identified). The percentage is calculated using 135,779,483 as the number of shares outstanding as of September 10, 2004.

Name of Person or Identity of Group	Shares Beneficially Owned	Percent of Class
Fidelity Management & Research Co. One Federal Street Boston, Massachusetts 02109	17,179,086[1]	12.65%
Franklin Advisors, Inc. One Franklin Parkway San Mateo, California 94403	8,095,224[1]	5.96%
Capital Guardian Trust Company 333 S. Hope Street, 55th Floor Los Angeles, California 90071	7,905,338[1]	5.82%
James W. Bagley	3,134,000[2]	2.31%
David G. Arscott	203,917[2]	*
Robert M. Berdahl	48,000[2]	*
Richard J. Elkus, Jr.	116,370[2]	*
Jack R. Harris	150,000[2]	*
Grant M. Inman	237,499[2]	*
Stephen G. Newberry	1,438,347[2]	1.06%
Nicolas J. Bright	473,221[2,3]	*
Ernest E. Maddock	54,286[2]	*
Steven A. Lindsay	273,063[2]	*
Mercedes Johnson	14,074	*
All current directors and current executive officers as a group (12 persons)[4]	6,200,023[2]	4.57%

* Less than one percent

(1) This information was obtained from the Nasdaq Stock Market, Inc. and was identified as representing the entity's quarterly 13F filing with the SEC reflecting holdings as of June 30, 2004.

(2) Includes shares subject to outstanding options that are currently exercisable or exercisable within 60 days after September 10, 2004, with respect to:

James Bagley	2,934,000 options	Stephen Newberry	1,438,347 options
David Arscott	156,000 options	Nicholas Bright	471,949 options
Robert Berdahl	48,000 options	Ernest Maddock	51,300 options
Richard Elkus, Jr.	84,000 options	Steven Lindsay	270,000 options
Jack Harris	138,000 options	Martin Anstice	44,023 options
Grant Inman	120,000 options	Abdi Hariri	27,297 options

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

(4) Current directors and current executive officers, as of September 10, 2004, include: Mr. Bagley, Mr. Arscott, Dr. Berdahl, Mr. Elkus, Mr. Harris, Mr. Inman, Mr. Newberry, Mr. Bright, Mr. Lindsay, Mr. Maddock, Mr. Martin Anstice, and Mr. Abdi Hariri.

DIRECTOR COMPENSATION

Directors who are not employees of the Company customarily receive annual base retainers of $36,000. A base retainer of $36,000 was paid to each non-employee director in fiscal 2004. Directors who serve as chair of a committee of the Board receive an additional $2,000 annual retainer. In addition, non-employee directors receive $1,000 per committee meeting attended, provided that the meeting is attended in person and occurs on a day other than a day when a full board meeting is held. In addition, each non-employee director is customarily granted on or about December 15 of each calendar year an option to purchase shares of the Company's Common Stock under the Company's Amended and Restated 1997 Stock Incentive Plan, at an exercise price per share equal to the fair market value of one share of the Company's Common Stock on the date of grant. In December 2002, each non-employee director was granted an option to purchase 24,000 shares of Common Stock, which constituted each non-employee director's stock option compensation for Fiscal Years 2003 and 2004. Each option has a term of ten years and is immediately exercisable upon grant. The plan provides that unexercised options may be exercisable for six months following termination of director status by death or disability.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Summary of Cash and Certain Other Compensation

The following table provides, for the three fiscal years ended June 27, 2004, June 29, 2003, and June 30, 2002, respectively, certain summary information concerning compensation paid or accrued by the Company to or on behalf of (i) the Company's Chief Executive Officer, James W. Bagley, (ii) each of the four other most highly compensated executive officers of the Company (determined as of the end of the last fiscal year), and (iii) the Company's former Chief Financial Officer, Mercedes Johnson, who was succeeded as Chief Financial Officer by Martin Anstice prior to the end of the last fiscal year (collectively, the "named executives").

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(1)	Other Annual Compensation ($)(2)	Number of Securities Underlying Options (#)	All Other Compensation ($)
James W. Bagley	2004	650,000	235,000	11,193		
Chairman of the Board &	2003	429,883		1,726	501,000	
Chief Executive Officer	2002	90,006		283	1,000	
Stephen G. Newberry	2004	567,308	530,000	6,477		1,274(3)
President and Chief	2003	501,635	33,000	2,823	285,250	1,292(3)
Operating Officer	2002	472,500		570	205,250	126,310(3)
Nicolas J. Bright	2004	351,950	260,000	4,600		5,683(4)
Sr. Vice President & Gen.	2003	280,013	16,500	1,691	156,949	6,801(4)
Manager, Global Products	2002	245,500	56,726	336	356,949	4,379(4)
Ernest E. Maddock	2004	283,385	180,000	474		3,994(5)
Group Vice President,	2003	216,538	12,000	18	63,050	5,662(5)
Global Operations	2002	190,404		2	89,750	5,074(5)
Steven A. Lindsay	2004	169,235	160,000			5,300(6)
Group Vice President,	2003	68,081	12,400		90,000	2,511(6)
Global Sales & Corp. Mktg.	2002	24,232			140,000	1,007(6)
Mercedes Johnson	2004	350,000	243,000	913		7,016(7)
Former Sr. Vice President,	2003	313,615	15,750	487	123,300	7,094(7)
Finance, & CFO	2002	282,385		98	5,300	6,190(7)

(1) Includes amounts and bonuses earned in fiscal 2004, 2003, and 2002, but deferred at the election of executive officer under the Company's deferred compensation plans and the Company's 401(k) Plan.

(2) Reflects interest earned on deferred compensation, to the extent that the interest rate exceeded 120% of the applicable federal long-term rate.

(3) Includes for fiscal 2002, $125,000 reflecting Mr. Newberry's interest in signing bonus received at the outset of his employment with the Company and held in his deferred compensation account, which interest vested on the first anniversary of his employment with the Company. Also includes $1,274 for term life insurance premiums for 2004, $1,292 for 2003, and $1,310 for 2002.

(4) Consists of the Company's matching contributions to the Company's 401(k) Plan in the amounts of $5,683 for 2004, $6,801 for 2003, and $4,379 for 2002.

(5) Consists of the Company's matching contributions to the Company's 401(k) Plan in the amounts of $3,324 for 2004, $5,193 for 2003, and $4,580 for 2002; and Company-paid term life insurance premiums of $670 for 2004, $469 for 2003, and $494 for 2002.

(6) Consists of the Company's matching contributions to the Company's 401(k) Plan in the amounts of $3,731 for 2004, $2,042 for 2003 and $727 for 2002; and Company-paid term life insurance premiums of $1,569 for 2004, $469 for 2003 and $280 for 2002.

(7) Consists of the Company's matching contributions to the Company's 401(k) Plan in the amounts of $6,181 for 2004, $6,021 for 2003, and $4,891 for 2002; and Company-paid term life insurance premiums of $835 for 2004, $1,073 for 2003, and $1,299 for 2002.

Stock Plans

No stock option grants were made to any of the named executives during fiscal 2004. The Company does not presently grant stock appreciation rights (SARs).

The following table provides certain information concerning the exercise of options to purchase the Company's Common Stock in the fiscal year ended June 27, 2004, and the unexercised options held as of June 27, 2004, by the named executives.

Aggregated Option Exercises by Named Executives in Last Fiscal Year, and Fiscal Year-End Option Values

Name	No. of Shares Acquired on Exercise	Value Realized ($)[1]	No. of Unexercised Options at Fiscal Year-End		Value of Unexercised In-The-Money Options at Fiscal Year End[2]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
James W. Bagley	1,780,000	$31,647,305	2,949,000	126,000	$46,198,040	$2,046,070
Stephen G. Newberry	455,900	$11,031,412	1,368,347	616,253	$19,007,371	$4,589,510
Nicolas J. Bright	157,500	$ 3,427,905	459,449	284,449	$ 5,257,480	$ 761,264
Ernest E. Maddock	111,350	$ 2,356,414	36,300	75,650	$ 189,348	$ 507,567
Steven A. Lindsay	200,000	$ 2,446,630	160,000	320,000	$ 1,471,624	$2,156,936
Mercedes Johnson	200,000	$ 4,543,967	165,150	123,300	$ 2,652,946	$2,060,756

(1) Market value of underlying securities at exercise, minus the exercise price.

(2) Market value of underlying securities at fiscal year-end, minus the exercise price.

Employment and Termination Agreements, Change of Control Arrangements, and Retirement Benefits

Employment Agreement with Stephen G. Newberry

The Company and Mr. Newberry entered into an employment agreement effective January 1, 2003 (the "Newberry Agreement").

The term of the Newberry Agreement is from January 1, 2003, through October 31, 2005, and will automatically extend for subsequent one-year periods without limit unless terminated by either Mr. Newberry or the Company in accordance with the provisions of the Newberry Agreement. The Newberry Agreement provides for a base salary, at a rate to be set at least annually by the Board of Directors. Under the Newberry Agreement, Mr. Newberry is entitled to participate in any performance incentive plan offered by the Company, in the Company's Executive Deferred Compensation Plan, and in other benefit plans and compensation programs generally applicable to key executives of the Company.

In the event of involuntary termination without cause or a change in control of the Company followed by either involuntary termination or the acceptance of a position of materially lesser authority or responsibility offered to Mr. Newberry by the Company, or if the Company is acquired by another entity so that there will be no market for the Common Stock of the Company and the acquiring entity does not provide options comparable to unvested stock options held by Mr. Newberry, all unvested stock options granted to Mr. Newberry will automatically be accelerated in full so as to become fully vested. Mr. Newberry will have two years from the date of termination in which to exercise such options. If Mr. Newberry's employment is involuntarily terminated without cause, he will be entitled to receive a lump sum payment equal to fifteen months of his then annual base compensation, and the Company will pay for fifteen months of COBRA benefits following the date of termination. If Mr. Newberry resigns voluntarily, he is not entitled to receive any severance benefits under the Newberry Agreement.

The Newberry Agreement provides that for a period of six months following Mr. Newberry's termination of employment with the Company, Mr. Newberry may not solicit any of the Company's employees to become employed by any other business enterprise.

Employment Agreement with Nicolas J. Bright

Effective August 1, 2003, the Company and Mr. Bright entered into an employment agreement (the "Bright Agreement").

The term of the Bright Agreement is from August 1, 2003, through January 31, 2006, and will automatically extend for subsequent one-year periods without limit unless terminated by either Mr. Bright or the Company in accordance with the provisions of the Bright Agreement. The Bright Agreement provides for a base salary, at a rate to be set at least annually by the Board of Directors. Under the Bright Agreement, Mr. Bright is entitled to participate in any performance incentive plan offered by the Company, in the Company's Executive Deferred Compensation Plan, and in other benefit plans and compensation programs generally applicable to key executives of the Company.

In the event of a change in control of the Company, subject to certain conditions set forth in the Bright Agreement, or involuntary termination of Mr. Bright without cause, all unvested stock options granted to Mr. Bright will automatically be accelerated in full so as to become fully vested. Mr. Bright will have two years from the date of termination in which to exercise such options. If Mr. Bright's employment is involuntarily terminated without cause, he will be entitled to receive a lump sum payment equal to fifteen months of his then annual base compensation, and the Company will pay for fifteen months of COBRA benefits following the date of termination. If Mr. Bright resigns voluntarily, he is not entitled to receive any severance benefits under the Bright Agreement.

The Bright Agreement provides that for a period of six months following Mr. Bright's termination of employment with the Company, Mr. Bright may not solicit any of the Company's employees to become employed by any other business enterprise.

Employment Agreement with Ernest E. Maddock

Effective April 15, 2003, Mr. Maddock and the Company entered into an employment agreement (the “Maddock Agreement”). The term of the employment agreement was from April 15 to October 15, 2003. The Maddock Agreement expired by its terms on October 15, 2003. Under the Maddock Agreement, Mr. Maddock received an annual salary and other compensation at a rate recommended by the Company’s Chief Executive Officer and as approved by the Compensation Committee of the Board of Directors. In the event Mr. Maddock had voluntarily resigned his position or if Mr. Maddock’s employment had been involuntarily terminated by the Company before October 15, 2003, other than for cause, Mr. Maddock would have been entitled to receive certain severance benefits.

Change of Control Arrangements

In addition to the change of control provisions in the foregoing agreements, certain of the Company’s Stock Option Plans and its Employee Stock Purchase Plan provide, generally, that, upon a merger of the Company with or into another corporation or the sale of substantially all of the assets of the Company, each outstanding option or right to purchase Common Stock shall be assumed, or an equivalent option or right substituted, by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation does not agree to assume the option or right or substitute an equivalent option or right, at the discretion of the plan administrator, some or all of the options granted under certain of the Stock Option Plans shall be fully exercisable, and all of the rights granted under the Employee Stock Purchase Plans shall be fully exercisable following the merger for a period from the date of notice by the Board of Directors. Following the expiration of such periods, the options and rights will terminate. Under certain other Stock Option Plans, the Plan Administrator may make other adjustments or provisions to compensate option holders.

Retirement Medical and Dental Benefits

Board members and executives who retire from the Company and who meet certain age and service requirements are allowed to continue to participate in the Company’s group medical and dental plans after retirement.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

No family relationships exist or existed during fiscal 2004 among any of the Company’s directors and executive officers. Related transactions during fiscal 2004 were:

Loan to Stephen G. Newberry

In fiscal 2001, the Company’s President and Chief Operating Officer, Stephen G. Newberry, signed a promissory note with the Company entitling him to borrow up to $1,000,000 from the Company at 6.75% simple interest. The loan was secured by a mortgage on Mr. Newberry’s personal residence and was repayable, in full, together with accrued interest, no later than May 8, 2005. As of the beginning of fiscal 2004 (June 30, 2003), Mr. Newberry had been advanced $1,000,000 against the promissory note. During the fiscal quarter ended December 28, 2003, Mr. Newberry repaid the entire principal amount plus all accrued interest thereon.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No persons who were members of the Compensation Committee during fiscal year 2004 had any relationship requiring disclosure under this section. During fiscal 2004, the Compensation Committee consisted of Messrs. Arscott, Berdahl, and Harris.

REPORT OF THE COMPENSATION COMMITTEE

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended ("Securities Act"), or the Exchange Act, that might incorporate all or portions of future filings, including this Proxy Statement, the following Report of the Compensation Committee, and the Comparative Stock Performance graph below, shall not be incorporated by reference into any such filings, nor shall they be deemed to be soliciting material or deemed filed with the SEC under the Securities Act or the Exchange Act.

The Compensation Committee (the "Committee") of the Board of Directors, composed of three independent non-employee directors, determines and administers the Company's executive compensation policies and programs. This Committee also approves all equity incentive awards to the Company's executive officers.

Compensation Policies

One of the Committee's primary goals in setting compensation policies is to maintain competitive programs to attract, retain, and motivate high-caliber executives and maximize the long-term success of the Company by appropriately rewarding such individuals for their achievements. Another goal is to provide an incentive to executives to focus efforts on long-term strategic goals for the Company by closely aligning their financial interests with stockholder interests. To attain these goals, the Committee has designed the Company's executive compensation program to include base salary, annual incentives, and long-term incentives.

In formulating and administering the individual elements of the Company's executive compensation program, the Committee emphasizes achievement of short- and long-term objectives and strives to use prudent judgment in establishing performance objectives, evaluating performance, and determining actual incentive awards.

The Committee believes that the Company's executive compensation programs have met these objectives. The Company has been able to attract and retain the executive talent necessary to support the corporation and promote long-term growth. The Company has also been able to reduce the payment of incentives during those periods in which the Company's revenue and operating profits were depressed.

Compensation Components

Base Salary

The Committee establishes the base salaries of executive officers, after review of relevant data of other executives with similar responsibilities from published industry reports and surveys of similarly situated companies. Accordingly, the Committee strives to maintain the Company's annual executive salaries at levels competitive with the market median base salaries of executive officers in similar positions. The market comprises similarly sized high-technology companies within and outside the Company's industry.

Annual Incentives

Incentive bonuses may be provided to executives as part of a competitive compensation package. The incentive levels are intended to provide the appropriate elements of variability and risk. Incentive payments may be tied specifically to targeted corporate and/or individual performance. The Committee will establish a target incentive amount, determined through review of competitive market data for executives at similar levels, which will be incrementally reduced if the Company does not meet its targeted performance or increased if the Company exceeds its targeted performance.

In furtherance of the Committee's compensation policies, the Committee believes that the 2004 Executive Incentive Plan, which was approved by the stockholders at the 2003 Annual Meeting, will further support and help achieve the Committee's stated compensation objectives by providing appropriate performance-related incentives to Lam executives.

Long-Term Incentives

Stock Options

The Committee grants stock options to focus an executive's attention on the long-term performance of the Company and on maximizing stockholder value. The grant of stock options is closely tied to individual executive performance. The Committee grants such stock options after a review of various factors, including the executive's potential contributions to the Company, current equity ownership in the Company, and vesting rates of existing stock options, if any. Stock options are granted with an exercise price equal to the fair market value of the Company's stock at the time of grant and utilize vesting periods intended to encourage retention of executive officers. Because of the direct benefit executive officers receive through improved stock performance, the Committee believes stock options serve to align the interests of executive officers closely with those of other stockholders.

Deferred Compensation Plan

Another component of the Company's executive compensation program is the Elective Deferred Compensation Plan (the "Deferred Plan"), a voluntary, non-tax-qualified, deferred compensation plan that encourages executives to save for retirement. Under the Deferred Plan, participants are entitled to defer compensation until retirement, death, other termination of employment, or until specified dates.

Compensation of Chief Executive Officer

The Committee bases the compensation of the Company's Chief Executive Officer ("CEO") on the policies and procedures described above. In determining the Chief Executive Officer's base salary and incentive bonus (if any), the Committee examines compensation levels for other chief executive officers in high-technology firms within and outside the industry. The Committee compares this information to the relevant performance of such firms relative to the Company's performance.

Pursuant to the Compensation Committee Charter, the Committee reviews corporate goals and objectives as relevant to the CEO; evaluates the CEO's performance in light of these goals and objectives; and, based on this evaluation, recommends the CEO's compensation package for approval by the independent members of the Board, including any employment agreement, severance arrangement, change-in-control arrangement, equity grant, or special or supplemental employee benefit, and any material amendment to any of the foregoing, between the Company and the CEO.

James W. Bagley

The previous employment agreement with Mr. Bagley expired by its terms in August 2002. Mr. Bagley and the Company are currently in discussions regarding the terms of a new employment agreement.

Beginning in fiscal 2003, the Board set Mr. Bagley's base salary at an annualized rate of $650,000. In February 2004, the Committee recommended, and the Board of Directors approved, that Mr. Bagley's base salary remain at $650,000 for calendar year 2004. Mr. Bagley is entitled to participate in the Company's incentive bonus programs available to other senior executives. During fiscal 2004 Mr. Bagley received bonus compensation of $235,000. No new stock options were granted to Mr. Bagley in fiscal 2004.

In October 2002 and July 2003 the Company made modifications to one of Mr. Bagley's stock option grants. The modifications extended the contractual life of and added additional vesting requirements to the stock option grant. The additional vesting requirements provided for acceleration after each of the following conditions were met: (1) the Nasdaq National Market closing price of the Company's common stock reached or exceeded $20.00 per share, and (2) applying U.S. generally accepted accounting principles, the Company's fiscal quarter net income exceeded $2.5 million after deducting any incremental amortization expense that resulted from acceleration of this same option. The two conditions need not have been met simultaneously nor in a specific order. Both conditions were met during the fiscal quarter ended September 28, 2003, and, as a result, all options under this arrangement were immediately vested in full.

Effect of Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code ("the Code") generally limits the corporate deduction for compensation paid to certain executive officers to $1 million, unless the compensation is performance-based. The Committee has carefully considered the potential impact of this tax code provision on the Company and has concluded in general that the best interests of the Company and the stockholders are and will be served if certain of the Company's short-term incentives and stock-based long-term incentives qualify as performance-based compensation within the meaning of the Code. It is the Committee's intention that, so long as it is consistent with the Company's overall compensation objectives, virtually all executive compensation will be deductible by the Company for federal income tax purposes. The stockholder-approved 2004 Executive Incentive Plan allows that when performance goals are met and compensation is granted under the plan, that compensation will be tax-deductible to the Company.

COMPENSATION COMMITTEE
David G. Arscott
Robert M. Berdahl
Jack R. Harris

REPORT OF THE AUDIT COMMITTEE

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act or the Exchange Act that might incorporate all or portions of future filings, including this Proxy Statement, the following Report of the Audit Committee shall not be incorporated by reference into any such filings, nor shall they be deemed to be soliciting material or deemed filed with the SEC under the Securities Act or the Exchange Act.

Under the guidance of a written Charter adopted by the Board of Directors, the purpose of the Audit Committee is to monitor the integrity of the financial statements of the Company, oversee the independence of the Company's independent registered public accounting firm, appoint and provide for the compensation of the independent registered public accounting firm, and evaluate the performance of the independent registered public accounting firm. Pursuant to the Audit Committee Charter, the Audit Committee also is responsible to review and approve all related-party transactions. Each of the members of the Audit Committee meets the independence requirements of Nasdaq.

Management has the primary responsibility for the system of internal control and the financial reporting process. The independent registered public accounting firm has the responsibility to express an opinion on the financial statements based on an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). The Audit Committee has the responsibility to monitor and oversee these processes.

In this context and in connection with the audited financial statements contained in the Company's Annual Report on Form 10-K, the Audit Committee:

- reviewed and discussed the audited financial statements with Company management;
- discussed with Ernst & Young LLP, the Company's independent registered public accounting firm, the matters required to be discussed by Statement of Auditing Standards No. 61, "Communication with Audit Committees," as amended by Statement of Auditing Standards No. 90, "Audit Committee Communications";
- reviewed the written disclosures and the letter from Ernst & Young LLP, required by the Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and discussed with the independent registered public accounting firm its independence;
- based on the foregoing reviews and discussions, recommended to the Board of Directors that the audited financial statements be included in the Company's 2004 Annual Report on Form 10-K for the fiscal year ended June 27, 2004, filed with the Securities and Exchange Commission; and
- instructed management and the independent registered public accounting firm that the Committee expects to be advised if there are any subjects that require special attention.

AUDIT COMMITTEE
David G. Arscott
Richard J. Elkus, Jr.
Grant M. Inman

RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP ("Ernst & Young") has audited the Company's consolidated financial statements since the Company's inception.

Fees Incurred to Ernst & Young LLP

The table below shows the fees billed by Ernst & Young for audit and other services provided to the Company in fiscal years 2004 and 2003.

Services / Type of Fee	FY 2004	FY 2003
Audit Fees [1]	$866,000	$ 722,000
Audit-Related Fees [2]	$ 74,000	$ 236,000
Tax Fees [3]	$ 9,000	$ 0
All Other Fees [4]	$ 0	$ 44,000
Total	$949,000	$1,002,000

(1) Audit fees represent fees for professional services provided in connection with the audits of annual financial statements, reviews of quarterly financial statements, and audit services related to other statutory or regulatory filings or engagements.

(2) Audit-related fees consist primarily of fees for assurance and related services pertaining to accounting consultations, SEC registration statements, and consultations and work related to the Sarbanes-Oxley Act of 2002 and related regulations.

(3) Tax fees represent fees for services primarily related to international tax compliance during fiscal 2004.

(4) All other fees relate principally to fees for subsidiary-related services during fiscal 2003.

The Audit Committee reviewed summaries of the services provided by Ernst & Young and the related fees during fiscal 2004 and has determined that the provision of non-audit services was compatible with maintaining the independence of Ernst & Young as the Company's independent registered public accounting firm.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services

It is the responsibility of the Audit Committee to approve, in accordance with Sections 10A(h) and (i) of the Exchange Act and the Rules and Regulations of the SEC, all professional services, to be provided to the Company by its independent registered public accounting firm, provided that the Audit Committee shall not approve any non-audit services proscribed by Section 10A(g) of the Exchange Act in the absence of an applicable exemption.

It is the policy of the Company that the Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent registered public accounting firm, consistent with the criteria set forth in the Audit Committee Charter and applicable laws and regulations. The Committee has delegated to the Chair of the Committee the authority to pre-approve such services, provided that the Chair shall report any decision on his part to pre-approve such services to the full Audit Committee at its next regular meeting. These services may include audit services, audit-related services, tax services, and other services. The independent registered public accounting firm and Company management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm pursuant to any such pre-approval.

Certain Ernst & Young Non-Audit Services in Previous Years Relating to Lam Subsidiaries

As part of its normal review, the Audit Committee carefully evaluates and examines its relationship with its independent registered public accounting firm. In its review of independence this year, the Company was made aware that Ernst & Young was considering the impact of certain services that Ernst & Young's affiliates had performed for Lam subsidiaries. These services were discontinued in 2002, and the related fees were insignificant. Based on its investigation of the facts, Ernst & Young determined that its independence had not been impaired.

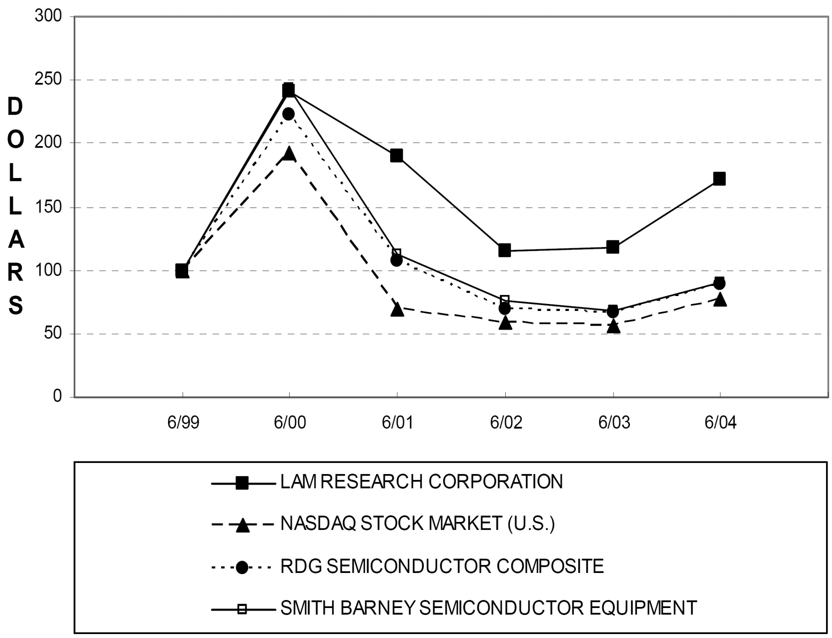
The Audit Committee separately reviewed the relevant facts and circumstances. Based on its review and discussions with Ernst & Young and independent legal advisors, the Committee concluded that Ernst & Young is and has been capable of exercising objective and impartial judgment on all issues encompassed within its engagement as Lam's independent registered public accounting firm.

COMPARATIVE STOCK PERFORMANCE

The following graph and table compare the cumulative total stockholder return on the Company's Common Stock ("LRCX") with the cumulative total return on the Nasdaq Stock Market Index (U.S. companies only), the Research Data Group ("RDG") Semiconductor Composite Index, and the Smith Barney Semiconductor Equipment Index over the last five fiscal years. The graph and table assume an investment of $100 in LRCX and in each index on July 1, 1999, and that dividends, if any, were reinvested. The graph and table depict the change in value of LRCX in relation to the indices as of June 30th of each year (and not for any interim or other period). The stock price performance shown on the graph and table below is not necessarily indicative of future price performance.

The graph and table below have been furnished by the RDG. The stock performance data and graph in the Company's 2003 Proxy Statement were provided by Smith Barney. Lam changed its comparative index and its provider of stock performance data this year to RDG because the RDG Semiconductor Composite Index is a published industry index. Both the RDG and Smith Barney indices are reflected in the graph and table below for reference and comparison.

Comparison of Five-Year Cumulative Total Return
AMONG LAM RESEARCH CORP, THE NASDAQ STOCK MARKET (U.S.) INDEX,
THE RDG SEMICONDUCTOR COMPOSITE INDEX,
AND THE SMITH BARNEY SEMICONDUCTOR EQUIPMENT INDEX



		Cumulative Total Return ($$) ($100 Initial Investment)				
		As of June 30				
	1999	2000	2001	2002	2003	2004
Lam Research Corporation	100.00	240.99	190.54	115.55	117.35	172.23
Nasdaq Stock Market Index (U.S.)	100.00	192.63	68.90	58.51	56.29	76.71
RDG Semiconductor Composite Index	100.00	222.81	107.11	69.92	66.47	89.51
Smith Barney Semiconductor Equip. Index ...	100.00	243.31	112.81	75.40	68.67	89.87

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of June 27, 2004, regarding securities authorized for issuance under the Company's equity compensation plans. The equity compensation plans of the Company include the 1991 Stock Option Plan, the 1996 Performance-Based Restricted Stock Plan, the 1997 Stock Incentive Plan, the 1999 Stock Option Plan, and the 1999 Employee Stock Purchase Plan.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights [1][2]	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	6,183,088[3]	$13.87	4,558,933[4]
Equity compensation plans not approved by security holders	16,632,465[5]	$19.19	2,683,444
Total	22,815,553	$17.75	7,242,377

(1) Does not include 15,687 issued shares of restricted stock with a weighted average price at issue of $6.38 per share, which were issued under the 1996 Performance-Based Restricted Stock Plan.

(2) Does not include options that Lam assumed under the OnTrak Systems, Inc.'s ("OnTrak") stock option plans pursuant to the merger of OnTrak into Lam. After giving effect to the exchange ratio provided in the merger, stock options exercisable for 803,000 shares of Lam common stock remain outstanding. These options have a weighted average exercise price of $6.93 per share. Following the merger, no further awards have been or will be made under the OnTrak Plans.

(3) Includes shares issuable under the Company's 1997 Stock Incentive Plan (the "1997 Plan"). The 1997 Plan was adopted by the Board in May 1997 and approved by the stockholders of the Company in August 1997. In October 2002, the Board amended the 1997 Plan to provide for the issuance of restricted stock unit awards, allow all 1997 Plan participants to participate in exchanges of stock options previously permitted under the 1997 Plan, and provide that vesting of restricted stock, deferred stock, performance share and restricted stock unit awards would be determined by the Administrator of the Plan at the time of the award grant.

(4) Includes 2,735,325 shares available for future issuance under the 1999 Employee Stock Purchase Plan ("1999 ESPP"). This number does not include shares that may be added to the 1999 ESPP share reserve in the future in accordance with the terms of the 1999 ESPP, as amended.

In fiscal year 2004, the Company's stockholders approved an amendment to the 1999 ESPP to each year automatically increase the number of shares available for issuance under the 1999 ESPP by a specific amount on a one-for-one basis with shares of Common Stock that the Company will redeem in public market and private purchases for such purpose. During fiscal year 2004, the number of shares of Lam Common Stock reserved for issuance under the 1999 ESPP increased by 2.0 million shares to 11.0 million shares, subject to repurchase of an equal number of shares in public market or private purchases.

(5) Includes shares issuable under the Company's 1999 Stock Option Plan (the "1999 Option Plan"). The 1999 Option Plan reserves for issuance up to 27,500,000 shares of the Company's Common Stock and is administered by the Compensation Committee of the Board (the "Administrator").

The 1999 Option Plan was adopted by the Board as of November 5, 1998 (the "Effective Date") and amended and restated as of October 16, 2002 and November 7, 2002. All directors, officers and employees of Lam and its designated subsidiaries, as well as consultants, advisors or independent contractors who provide valuable services to the Company or such subsidiaries, are eligible to participate in the 1999 Option Plan.

Nonstatutory stock options, deferred stock, restricted stock, performance shares, and restricted stock unit awards (collectively, the "Awards") may be granted under the 1999 Option Plan. Stock options granted under the 1999 Option Plan must have an exercise price that is not less than the fair market value of the Company's Common Stock on the date of the grant. The Administrator shall determine the participants to whom Awards shall be granted and the terms of such Awards. The 1999 Option Plan terminates ten years from the Effective Date.

In the event of a corporate transaction such as a change of control, the 1999 Option Plan provides that each outstanding Award shall be assumed, or an equivalent Award substituted, by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation does not agree to assume the Award or substitute an equivalent Award, subject to limitations that may be placed in an Award on the date of grant, outstanding Awards shall accelerate and become fully exercisable.

PROPOSAL NO. 2
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Unless marked otherwise, proxies received will be voted "FOR" the ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm for the Company for the current fiscal year. Ernst & Young has been the Company's independent registered public accounting firm (auditor) since fiscal year 1981.

The audit services of Ernst & Young during fiscal 2004 included the examination of the consolidated financial statements of the Company and services related to filings with the SEC and other regulatory bodies.

The Audit Committee of the Company meets with Ernst & Young on an annual or more frequent basis. At such time, the Audit Committee reviews both audit and non-audit services performed by Ernst & Young, as well as the fees charged for such services. Among other things, the Committee examines the effect that the performance of non-audit services, if any, may have upon the independence of the independent registered public accounting firm. All professional services provided by Ernst & Young, including such non-audit services, if any, are subject to approval by the Audit Committee in accordance with applicable securities laws, rules and regulations. For more information, see the "*Report of the Audit Committee*" and the "*Relationship with Independent Registered Public Accounting Firm*" sections above.

A representative of Ernst & Young is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she so desires. The representative will also be available to respond to appropriate questions from the stockholders.

Approval of Proposal No. 2 will require the affirmative vote of a majority of the outstanding shares of Common Stock present or represented and voting on such Proposal at the Annual Meeting.

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2005.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's executive officers, directors, and persons who own more than 10% of a registered class of the Company's equity securities to file an initial report of ownership on Form 3 and changes in ownership on Forms 4 or 5 with the SEC. Executive officers, directors, and greater than 10% stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Specific due dates for these reports have been established, and the Company is required to disclose in this Proxy Statement any failure to file such reports on a timely basis. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that all of these requirements were satisfied during the 2004 fiscal year. In addition, a voluntary Form 4 was filed on March 18, 2004, reflecting a gift transfer of stock by Mr. Bagley that occurred on December 31, 2003.

OTHER MATTERS

The Company knows of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the proxy holders named in the enclosed form of Proxy to vote the shares they represent as the Board of Directors may recommend.

It is important that your stock holdings be represented at the meeting, regardless of the number of shares you hold. You are, therefore, urged to execute and return, at your earliest convenience, the accompanying proxy card in the enclosed envelope or otherwise exercise your stockholder voting rights by telephone or Internet, as provided in the materials accompanying this Proxy Statement.

By Order of The Board of Directors,

George M. Schisler, Jr.
Assistant Secretary

Fremont, California
Dated: October 8, 2004

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APPENDIX A

NOMINATING/GOVERNANCE COMMITTEE CHARTER

Adopted by the Board of Directors of Lam Research Corporation

Purpose

The purpose of the Nominating/Governance Committee (the "Committee") of the board of directors (the "Board") of Lam Research Corporation (the "Company") is to identify individuals qualified to serve as members of the Board of the Company, and recommend nominees for election as directors of the Company, evaluate the Board's performance, develop and recommend to the Board corporate governance guidelines, and provide oversight with respect to corporate governance and ethical conduct.

Composition

The Committee shall be composed of two or more directors, as determined by the board of directors, each of whom shall satisfy the requirements of the principal stock exchange or quotation service on which the Company's shares are listed or quoted.

Responsibilities

The Committee is charged by the Board with the responsibility to:

1. Identify and evaluate individuals qualified to serve as members of the Board; recommend to the independent directors of the Company nominees for election as directors of the Company at the next annual or special meeting of stockholders at which directors are to be elected; and identify, evaluate and recommend individuals to fill any vacancies or newly created directorships that may occur between such meetings.

2. Make recommendations to the Board annually after consultation with the Chair of the Board and the Lead Independent Director, if any, with respect to assignment of Board members to committees and for committee chairs; and, as appropriate, recommend rotation or removal of directors from Board committees.

3. Cause to be prepared and recommend to the Board the adoption of corporate governance guidelines, and from time to time review and assess the guidelines and recommend changes for approval by the Board.

4. Conduct from time to time a review of the Board and the Board committees in accordance with the Company's Corporate Governance Guidelines and the committee charters, and report the evaluation to the Board.

5. Conduct a suitability review of each director on a regular schedule, and use the results of these reviews in connection with each director's re-nomination.

6. Cause to be prepared and adopted a code of ethics/conduct meeting legal requirements and the requirements of the principal stock exchange or quotation service on which the Company's shares are listed or quoted.

7. Provide minutes of Committee meetings to the Board, and report to the Board on any significant matters arising from the Committee's work.

8. Review and assess from time to time, this Charter and, if appropriate, recommend changes to the Board.

9. Perform such other duties and responsibilities as may be assigned to the Committee by the Board.

Authority

By adopting this Charter, the Board delegates to the Committee full authority in its discretion to:

1. Perform each of the responsibilities of the Committee described above.

2. Appoint a chair of the Committee, unless the Board designates a chair.

3. Engage and terminate search firms, independent counsel and other advisers as the Committee determines necessary to carry out its responsibilities, and approve the fees and other terms of retention of any such search firms, independent counsel and other advisers.

4. Cause the officers of the Company to provide such funding, as the Committee shall determine to be appropriate for payment of compensation to any search firm or other advisers engaged by the Committee.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

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

For the fiscal year ended June 27, 2004

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)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value $0.001 Per Share
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. [ ]

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

The aggregate market value of the Registrant's Common Stock, $0.001 par value, held by non-affiliates of the Registrant, as of December 28, 2003, the last business day of the second fiscal quarter was $2,833,407,363. Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock has been excluded from this computation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination of such status for other purposes.

As of August 29, 2004, the Registrant had 135,517,692 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on November 4, 2004 are incorporated by reference into Part III of this Form 10-K Report. (The Report of the Audit Committee, Compensation Committee, and the Comparative Stock Performance graph of the Registrant's Proxy Statement are expressly not incorporated by reference herein.)

LAM RESEARCH CORPORATION

2004 ANNUAL REPORT ON FORM 10-K

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PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements that relate to our future revenue, changing customer requirements, product development, demand, acceptance and market share, competitiveness, gross margins, levels of research and development (R&D), outsourcing plans and operating expenses, our management's plans and objectives for our current and future operations, the effects of our restructurings and consolidation of operations and facilities, our ability to complete contemplated restructurings or consolidations on time or within anticipated costs, the levels of customer spending or R&D activities, general economic conditions, and the sufficiency of financial resources to support future operations and capital expenditures. Such statements are based on current expectations and are subject to risks, uncertainties and changes in condition, significance, value and effect, including those discussed below and under the heading "Risk Factors" within the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other documents we file from time to time with the Securities and Exchange Commission such as our 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 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 of information currently and reasonably known. 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. All references to fiscal years apply to our fiscal years, which ended June 27, 2004, June 29, 2003, and June 30, 2002.

Item 1. *Business*

Lam Research Corporation (Lam or the Company), a Delaware corporation, was founded in 1980 and is headquartered in Fremont, California. The mailing address for our principal executive offices is 4650 Cushing Parkway, Fremont, California 94538, and our telephone number is (510) 572-0200. Additional information about Lam is available on our web site at http://www.lamrc.com. Our Forms 10-K, Forms 10-Q, and Forms 8-K are available online at the Securities and Exchange Commission (SEC) web site on the Internet. The address of that site is http://www.sec.gov. We also make available free of charge the Forms 10-K, Forms 10-Q, and Forms 8-K and any amendments to those reports on our corporate web site at http://www.lamrc.com as soon as reasonably possible after we file them with or furnish them to the SEC.

We design, manufacture, market, and service semiconductor processing equipment used in the fabrication of integrated circuits and are recognized as a major supplier of such equipment to the worldwide semiconductor industry. Semiconductor wafers are subjected to a complex series of process steps that result in the simultaneous creation of many individual integrated circuits. Our products selectively remove portions of various films from the wafer to create semiconductors. We leverage our expertise in these areas to develop intellectual property (IP) for integrated processing solutions.

Etch processes, which are repeated numerous times during the wafer fabrication cycle, are required to manufacture every type of semiconductor device produced today. To etch devices designed at current and future technology nodes, our etch systems employ Lam's TCP™ high density and Dual Frequency Confined™ (DFC™) medium density plasma sources.

In the fourth quarter of fiscal 2004, we decided to cease further investment in chemical mechanical polishing (CMP) systems development. This decision was based on the conclusion that the product did not demonstrate sufficient advantages to garner the market share necessary for adequate returns on further investment.

Etch Process

The etch process defines linewidths and other microscopic and sub-microscopic features on integrated circuits. Plasma etching was developed to meet the demand for device geometries smaller than 3 microns. Plasma consists of charged and neutral species that react with exposed portions of the wafer surface to remove dielectric, metal, or polysilicon material and produce the finely delineated features and patterns of an integrated circuit.

Advanced integrated circuit manufacturing requires etch systems capable of creating 130/110 nm features for current-generation products and below 110 nm for future semiconductor products. At this time, the technology node transition accompanies a conversion from aluminum to copper conductive lines to enhance device speeds and the implementation of more fragile insulating dielectric materials (low k and porous low k). In addition to these changes, advanced manufacturing facilities are now producing integrated circuits on 300 mm (12 inch) silicon wafers while other facilities use wafer diameters of 200 mm (8 inch) and smaller. Semiconductor manufacturers will continue to require more precise control over the etching process in order to accommodate these decreasing linewidths and increasing wafer diameters. One clear focus for the differentiation of Lam's products and services from those of our competitors will be the extent to which we can meet these changing process control requirements.

Our etch products and services are defined around the Alliance® and 2300™ Etch Series platforms.

Dielectric Etch Products

Exelan®, Exelan High Performance, Exelan HPT, and 2300 Exelan Systems. The Exelan family of products utilizes Lam's patented DFC technology to create smaller feature sizes and mixes sequential etch process steps in the same chamber. These integrated capabilities developed by Lam improve productivity and lower the cost of ownership for our customers. Exelan was introduced in July 1999 to define the structures required for manufacturing copper conductive lines in semiconductors utilizing traditional insulating dielectric films. Exelan High Performance, introduced in 2001, extends Exelan's capabilities for etching newer low k insulating dielectric films. Exelan HPT, introduced early in 2002, targets sub-130 nm geometries. The 2300 Exelan family of products addresses process requirements to sub-65 nm for 200 mm and 300 mm wafer sizes.

Conductor Etch Products

TCP® 9400 and TCP® 9600 Series and 2300 Versys® Series Systems. The first TCP products were introduced in late 1992. They use Lam's patented Transformer Coupled Plasma™ source technology, a high-density, low-pressure plasma source that can etch features well below 110 nm. For 200 mm wafer sizes, we offer the TCP® 9400PTX and TCP® 9400DFM for silicon etch applications and the TCP® 9600PTX and TCP® 9600DFM for metal etch applications. These systems are used in the production of a broad range of advanced logic and memory devices with feature sizes down to 130/110 nm.

The 2300 Versys system for etching silicon and metal films employs a scaled design of TCP technology to address leading-edge device structure requirements. The 2300 Versys system has the capability to process 200 or 300 mm wafer sizes. The 2300 Versys Star™ silicon etch system enables sequential step tuning of gas flow and wafer temperature, which provides the critical dimension uniformity required for sub-65 nm geometries.

Lam 2300 compatible process chambers can be converted within our customers' facilities from 200 mm to 300 mm, which has the advantage of providing customers with greater flexibility and lower costs. This capability, combined with an overall system footprint comparable to 200 mm systems, allows semiconductor manufacturers to develop integrated circuits using 200 mm wafers instead of expensive 300 mm wafers and later scale up to 300 mm wafer processing.

Clean Products

Synergy cleaning products. Synergy products combine DSS™ technology and Chemical Mechanical Cleaning™ (CMC™) technology to perform mechanical and chemical cleaning in a single-step process. The Synergy Integra™ incorporates Synergy's cleaning technology with a platform that can be integrated with other suppliers' CMP systems. Certain integrated systems in the industry are the result of development relationships between Lam and CMP suppliers. The Synergy standalone clean system is used to clean wafers both before and after a range of semiconductor processing steps.

2300, Chemical Mechanical Cleaning, CMC, DFC, Dual Frequency Confined, Synergy, Synergy Integra, TCP, Transformer Coupled Plasma, and Versys Star are trademarks of Lam Research Corporation. Alliance, DSS, Exelan, the Lam logo, Lam Research, TCP® 9400, TCP® 9400DFM, TCP® 9400PTX, TCP® 9600, TCP® 9600DFM, TCP® 9600PTX, and Versys are registered trademarks of Lam Research Corporation.

Research and Development

The market for semiconductor capital equipment is characterized by rapid technological change and product innovation. Our ability to maintain competitive advantage depends in part on our continued and timely development of new products and enhancements to existing products. Accordingly, we devote a significant portion of our personnel and financial resources to R&D programs and seek to maintain close and responsive relationships with our customers and suppliers.

Our R&D expenses during fiscal 2004, 2003, and 2002 were $170.5 million, $160.5 million, and $179.2 million, or 18.2%, 21.3%, and 19.0% of total revenue, respectively. Expenditures are targeted at continued development of advanced etch applications and enhancements to our existing products, including developing the technology necessary to support our customers' transition to smaller feature sizes, new insulating materials, copper-based devices, and 300-mm wafers.

We expect to continue to make substantial investments in R&D to meet our customers' product needs and enhance our competitive position.

Marketing, Sales, and Service

Our marketing and sales efforts are focused on building long-term relationships with our customers. These efforts are supported by a team of product marketing and sales professionals as well as equipment and process engineers that work closely with individual customers to develop solutions to their processing needs. We maintain ongoing support relationships with our customers and have an extensive network of field service personnel in place throughout the United States, Europe, Japan, and Asia Pacific. We believe that comprehensive support programs and close working relationships with customers are essential to maintaining high customer satisfaction and our competitiveness in the marketplace. We have 37 sales and support locations around the world, through which technical personnel sell and/or service our products.

We offer standard warranties for our systems that generally run for a period of 12 months from system acceptance, not to exceed 14 months from shipment of the system to the customer. The warranty provides that systems shall be free from defects in material and workmanship and conform to our published specifications. The warranty is limited to repair of the defect or replacement with new or like-new equivalent goods and is valid when the buyer provides prompt notification within the warranty period of the claimed defect or non-conformity and also makes the items available for inspection and repair. We also make extended warranty packages available for our customers to purchase as desired.

Export Sales

A significant portion of our sales and operations occur outside the United States and, therefore, may be subject to certain risks, including tariffs and other barriers, difficulties in staffing and managing non-U.S. operations, adverse tax consequences, exchange rate fluctuations, and difficulties in accounts receivable collection. There can be no assurance that any of these factors will not have a material adverse effect on our business, financial position, and results of operations and cash flows.

Customers

Our customers include many of the world's leading semiconductor manufacturers. Increasingly, customers have established joint ventures, alliances and technology licensing arrangements, which has potential to positively and negatively impact our competitive position. In fiscal year 2004, revenues, on a standalone basis, from ST Microelectronics accounted for approximately 15% of total revenues, and, in fiscal year 2003, revenues from Samsung Electronics Company, Ltd., accounted for approximately 15% of total revenues. No individual customer accounted for more than 10% of our total revenue in fiscal 2002.

A material reduction in orders from our customers in the semiconductor industry could adversely affect our results of operations and projected financial condition. Our business depends upon the expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits and the availability of equipment capacity to support that demand.

Backlog

Company unshipped orders backlog, at any point in time, includes orders for systems, spares, and services where written customer requests have been accepted and the delivery of products or provision of services is anticipated within the next 12 months. Our policy is to make adjustments to our backlog to reflect, among other things, customer delivery date changes as well as order cancellations. We schedule production of our systems based upon purchase orders in backlog and our customers' delivery requirements. Included in our systems backlog are orders for which written requests have been accepted, prices have been agreed upon, and shipment of systems is expected within one year. The spares and services backlog includes customer orders for products that have not yet shipped and for services that have not yet been provided. Where specific spare parts and customer service purchase contracts do not contain discrete delivery dates, we use volume estimates at the contract price and over the contract period, not exceeding 12 months, in calculating backlog amounts.

As of June 27, 2004 and June 29, 2003, our backlog was approximately $403 million and $239 million, respectively. Generally, orders for our products and services are subject to cancellation by our customers with limited penalties. Because some orders are received for shipments in the same quarter and due to possible customer changes in delivery dates and cancellations of orders, our backlog at any particular date is not necessarily indicative of business volumes or actual revenue levels for succeeding periods.

Manufacturing

Our manufacturing operations consist mainly of assembling and testing components, sub-assemblies, and modules that are then integrated into finished systems prior to shipment to our customers. Most of the assembly and testing of our products is conducted in cleanroom environments.

Starting in fiscal 2002, we entered into agreements with third parties to outsource certain elements of our manufacturing, production warehousing, and logistics functions. We continue to believe that entering into these outsourcing contracts provides us more flexibility to scale our operations up or down in a more timely and cost effective manner, enabling us to respond to the cyclical nature of our business. We believe that we have selected reputable providers and are securing their performance on terms documented in written contracts. However, it is possible that one or more of these providers could fail to perform as we expect, and such failure could have an adverse impact on our business. In addition, the expanded role of outsource providers has required us to implement changes to our existing supply chain management functions, including the adoption of new procedures to effectively manage performance risk. We believe that we have implemented adequate oversight procedures. Even so, any delay or failure in the implementation of our operational changes could adversely affect our customer relationships and have a negative effect on our operating results and financial condition. Refer to Note 15 of our Consolidated Financial Statements, included in Item 8 herein, for further information concerning our outsourcing commitments.

As is often the case in the high technology industry, due to limited availability of suppliers of certain proprietary or patented technologies, a minority of the components and subassemblies included in our products are only obtained from a single supplier. We believe that, in many cases, alternative sources could be obtained and qualified to supply these products. Nevertheless, a prolonged inability to obtain certain components could have an adverse short-term effect on our operating results and could unfavorably impact our customer relationships.

Environmental Matters

We are subject to a variety of governmental regulations related to the management of hazardous materials. We are currently not aware of any pending notices of violation, fines, lawsuits, or investigations arising from environmental matters that would have any material effect on our business. 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. Nevertheless, the failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, and 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.

Employees

As of August 29, 2004, we had approximately 2,200 regular full-time employees.

Each of our employees signs an agreement to maintain the confidentiality of our proprietary information, and most of our employees have Lam stock or stock option arrangements with us that generally provide for the vesting of their options over multiple years.

In the semiconductor and semiconductor equipment industries, competition for highly skilled employees is intense. Our future success depends to a significant extent upon our continued ability to attract and retain qualified employees, particularly in the R&D and customer support functions. We continue to believe that the ability to offer compensation in the form of stock options or similar plans is an important component of our employee retention programs.

Competition

The semiconductor capital equipment industry is characterized by rapid change and is highly competitive throughout the world. In order to compete effectively, we must invest significant financial resources to continue to strengthen and enhance our product and services portfolio and to maintain customer service and support locations globally. Semiconductor manufacturers evaluate capital equipment suppliers in many areas, including, but not limited to, process performance, productivity, customer support, defect control, and overall cost of ownership, which can be affected by many factors such as equipment design, reliability, software automation, etc. Our ability to succeed in the marketplace will depend upon our ability to introduce product enhancements and new products on a timely basis. In addition, semiconductor manufacturers must make a substantial investment to qualify and integrate new capital equipment into a semiconductor production line. As a result, once a semiconductor manufacturer has selected a particular supplier's equipment and qualified it for production, the manufacturer generally maintains that selection for that specific production application. Accordingly, we may experience difficulty in selling to a given customer if that customer has qualified a competitor's equipment.

We face significant competition with all of our products. Certain of our existing and potential competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing, and customer service and support organizations. We expect our competitors to continue to improve the design and performance of their current products and processes and to introduce new products and processes with enhanced price performance characteristics. If our competitors make acquisitions or enter into strategic relationships with leading semiconductor manufacturers covering etch or products similar to those we sell, our ability to sell our products to those customers could be adversely affected. There can be no assurance that we will continue to compete successfully in the future. Our primary competitors in the etch market are Tokyo Electron Limited and Applied Materials Inc.

Patents and Licenses

Our policy is to seek patents on inventions relating to new or enhanced products and processes developed as part of our ongoing research, engineering, manufacturing, and support activities. We currently hold a number of United States and foreign patents covering various aspects of our products and processes. We believe that the duration of our patents generally exceeds the useful life of the technologies and processes disclosed and claimed therein. Our patents, which cover material aspects of our past and present core products, have current durations ranging from approximately 5 to 17 years. We believe that, although the patents we own and may obtain in the future will be of value, they will not alone determine our success, which depends principally upon our engineering, marketing, support, and delivery skills. However, in the absence of patent protection, we may be vulnerable to competitors who attempt to imitate our products, manufacturing techniques, and processes. In addition, other companies and inventors may receive patents that contain claims applicable or similar to our products and processes. The sale of products covered by patents of others could require licenses that may not be available on acceptable terms, or at all.

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 business and financial results. For further discussion of legal matters, see Item 3, "Legal Proceedings," of this Form 10-K.

Other Cautionary Statements

See the discussion of risks in the section of this report entitled Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

EXECUTIVE OFFICERS OF THE COMPANY

As of September 9, 2004, the executive officers of Lam, who are elected by and serve at the discretion of the Board of Directors, were as follows:

Name	Age	Title
James W. Bagley	65	Chairman and Chief Executive Officer
Stephen G. Newberry	50	President and Chief Operating Officer
Martin B. Anstice	37	Vice President, Finance, Chief Financial Officer and Chief Accounting Officer
Nicolas J. Bright	48	Senior Vice President and General Manager, Global Products
Steven A. Lindsay	65	Group Vice President, Global Sales and Corporate Marketing
Ernest E. Maddock	46	Group Vice President, Global Operations
Abdi Hariri	43	Vice President, Customer Support Business Group

James W. Bagley became Chief Executive Officer and a Director of Lam upon consummation of the merger with OnTrak Systems, Inc., in 1997. Effective September 1, 1998, Mr. Bagley was appointed Chairman of the Board of Lam. Mr. Bagley currently is a director of Teradyne, Inc. and Micron Technology, Inc. From June 1996 to August 1997, Mr. Bagley served as Chairman of the Board and Chief Executive Officer of OnTrak Systems, Inc. He was formerly Chief Operating Officer and Vice Chairman of the Board of Applied Materials, Inc., where he also served in other senior executive positions during his 15-year tenure. Mr. Bagley held various management positions at Texas Instruments, Inc., before he joined Applied Materials, Inc.

Stephen G. Newberry joined the Company in August 1997 as Executive Vice President and Chief Operating Officer. In July 1998, Mr. Newberry was promoted to President of Lam. Mr. Newberry currently is a director on the board of Nextest Systems Corporation and Semiconductor Equipment and Materials Institute (SEMI), the industry's trade association. Previously, he was employed by Applied Materials, Inc. for 17 years, most recently as Group Vice President of Global Operations and Planning. From 1990 to 1992, Mr. Newberry served as Vice President of Applied Materials Japan and was responsible for customer service, engineering and manufacturing activities in that region. Upon his return to the United States, Mr. Newberry served in a variety of executive management positions at Applied Materials, Inc.

Martin B. Anstice joined Lam in April 2001 as Senior Director, Operations Controller, was promoted to the position of Managing Director and Corporate Controller in May 2002, and was promoted to Vice President, Finance, Chief Financial Officer, and Chief Accounting Officer in June 2004. Mr. Anstice began his career at Raychem Corporation where, during his 13-year tenure, he held numerous finance roles of increasing responsibility in Europe and North America. Subsequent to Tyco International's acquisition of Raychem in 1999, he assumed responsibilities supporting mergers and acquisition activities of Tyco Electronics. Mr. Anstice is an associate member of the Chartered Institute of Management Accountants in the United Kingdom.

Nicolas J. Bright joined the Company in May 1998 as Vice President of Technology and Engineering. He currently holds the position of Senior Vice President and General Manager, Global Products. Prior to joining Lam, Mr. Bright was employed by Applied Materials, Inc. During his 16-year tenure at that firm, Mr. Bright held senior management positions in engineering and technology within etch, ion implant, and automation business units. He has also held positions at General Electric Co. in the United Kingdom and ABB in Sweden. Mr. Bright holds numerous patents in semiconductor manufacturing disciplines.

Steven A. Lindsay, Group Vice President of Global Sales and Corporate Marketing since November 2001, joined the Company in September 1999 as Vice President of Corporate Marketing. Previously, Mr. Lindsay was employed by Applied Materials, Inc., where, during his 22-year tenure, he held numerous senior management positions in sales and marketing. Most recently, he was President, Applied Materials North America and Group Vice President, Applied Materials, Inc. He has also held sales management positions at Fairchild Semiconductor and ITT Semiconductor.

Ernest E. Maddock, Group Vice President of Global Operations since October 2003, currently oversees Global Operations, Information Technology, Global Security, Corporate Quality, and Facilities. Mr. Maddock joined the Company in November 1997. Mr. Maddock's previously held positions with the Company include Vice President of the Customer Support Business Group. Prior to his employment with Lam, he was Managing Director, Global Logistics and Repair Services Operations, and Chief Financial Officer, Software Products Division, of NCR Corporation. He has also held a variety of executive roles in finance and operations in several industries ranging from commercial real estate to telecommunications.

Abdi Hariri, Vice President of the Customer Support Business Group since August 2004, joined the Company in April 1989 and has served in a number of different assignments with the Field and Product Groups. Prior to his current appointment, Mr. Hariri served as the General Manager of Lam Japan for approximately 18 months. His experience prior to his appointment in Japan included over thirteen years at the Company with various responsibilities, including global business development and engineering. Prior to his employment at Lam, Mr. Hariri served as a Process Engineer at Siliconix, Inc. He holds a Masters Degree in Chemical Engineering from Stanford University.

Item 2. *Properties*

Our executive offices and principal operating and R&D facilities are located in Fremont, California, and are under operating leases expiring from 2005 to 2008. As a result of the restructuring of our operations, we have subleased some of our idle facilities, (refer to Note 15 of our Consolidated Financial Statements, included in Item 8 herein, for further information concerning our property leases). In addition, we lease properties for our service, technical support and sales personnel throughout the United States, Europe, Japan, and Asia Pacific. Our fiscal 2004 rental payments for the space occupied during that period aggregated approximately $6.2 million. Our facilities lease obligations are subject to periodic increases, and we believe that our existing facilities are well maintained and in good operating condition.

Item 3. *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 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, liquidity, operating results, or our consolidated financial statements taken as a whole.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

PART II

Item 5. *Market for the Registrant's Common Stock and Related Stockholder Matters*

The information required by this Item is incorporated by reference from Item 6, "Selected Consolidated Financial Data," below.

Item 6. *Selected Consolidated Financial Data*

	Year Ended				
	June 27, 2004	June 29, 2003	June 30, 2002	June 24, 2001	June 25, 2000
	(in thousands, except per share data)				
OPERATIONS:					
Total revenue(1)	$ 935,946	$ 755,234	$ 943,114	$1,519,789	$1,230,767
Gross margin	431,049	303,829	266,089	653,479	541,855
Restructuring charges, net(2)	8,327	15,901	44,850	12,780	(33,691)
Purchased technology for research and development	—	—	—	8,000	7,460
Operating income (loss)	106,180	(5,385)	(119,838)	186,532	229,842
Loss on equity derivative contracts in Company stock (EITF 00-19)	—	(16,407)	(8,236)	—	—
Income (loss) before cumulative effect of changes in accounting principles	82,988	(7,739)	(90,051)	141,137	204,756
Cumulative effect of EITF 00-19(3)	—	—	—	33,074	—
Cumulative effect of SAB 101, net of tax(4)	—	—	—	(122,105)	—
Net income (loss)	82,988	(7,739)	(90,051)	52,106	204,756
Net income (loss) per share:					
Income (loss) before cumulative effect of changes in accounting principles					
Basic	$ 0.63	$ (0.06)	$ (0.71)	$ 1.14	$ 1.69
Diluted	$ 0.59	$ (0.06)	$ (0.71)	$ 1.07	$ 1.53
Cumulative effect of EITF 00-19(3)					
Basic	—	—	—	$ 0.27	—
Diluted	—	—	—	$ 0.25	—
Cumulative effect of SAB 101, net of tax(4)					
Basic	—	—	—	$ (0.99)	—
Diluted	—	—	—	$ (0.92)	—
Net income (loss)					
Basic	$ 0.63	$ (0.06)	$ (0.71)	$ 0.42	$ 1.69
Diluted(5)	$ 0.59	$ (0.06)	$ (0.71)	$ 0.39	$ 1.53
Pro forma amounts with the change in accounting principle related to revenue recognition applied retroactively (unaudited):					
Total revenues	n/a	n/a	n/a	$1,519,789	$1,009,006
Net income (loss)	n/a	n/a	n/a	174,211	108,133
Net income (loss) per share:					
Basic	n/a	n/a	n/a	$ 1.41	$ 0.89
Diluted	n/a	n/a	n/a	$ 1.32	$ 0.81
BALANCE SHEET:					
Working capital	$ 519,782	$ 655,794	$ 757,880	$1,076,922	$ 733,579
Total assets	1,198,626	1,198,275	1,632,291	1,871,775	1,244,837
Long-term obligations, less current portion	9,554	332,209	359,691	659,718	321,657

(1) We changed our revenue recognition policy in the fourth quarter of fiscal 2001, effective June 26, 2000, based on guidance provided in Securities and Exchange Commission Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements." Refer to our discussion of "Critical Accounting Policies" for additional information about our revenue recognition policy and see item (4) below.

(2) Restructuring charges, net exclude restructuring charges (recoveries) included in cost of goods sold and reflected in gross margin of ($1.7) million, ($1.0) million, $5.9 million, $4.0 million and ($2.2) million, for fiscal years 2004, 2003, 2002, 2001, and 2000, respectively. These amounts primarily relate to the write-off of selected, older product line inventories in connection with our restructuring plans and the partial recovery of the charges from the subsequent sale of a portion

of such inventories. These restructuring charges/(recoveries) are included as a component of cost of goods sold in accordance with Emerging Issues Task Force 96-9, “Classification of Inventory Markdowns and Other Costs Associated with a Restructuring” (EITF 96-9).

(3) We recorded a non-cash gain of $33.1 million (no related tax), or $0.25 per diluted share, to reflect the cumulative effect of the accounting change as of June 24, 2001 related to the adoption of Emerging Issues Task Force 00-19, “Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (EITF 00-19).

(4) We recorded a non-cash charge of $122.1 million, after reduction for income tax benefits of $81.4 million, or ($0.92) per diluted share, to reflect the cumulative effect of the accounting change as of June 26, 2000 related to the adoption of SAB 101.

(5) Diluted net income per share for the fiscal year ended June 27, 2004 includes the assumed conversion of the convertible subordinated 4% notes. Accordingly, interest expense, net of taxes, of $3.2 million must be added back to net income for computing diluted net earnings per share.

UNAUDITED SELECTED QUARTERLY FINANCIAL DATA

	1ST	2ND	3RD	4TH
	(in thousands, except per share data)			
QUARTERLY FISCAL 2004:				
Total revenue	$183,738	$191,508	$231,128	$329,572
Gross margin	78,518	87,215	106,113	159,203
Restructuring charges, net(1)	1,062	5,948	1,317	—
Operating income	4,937	8,048	24,664	68,531
Net income	4,786	6,391	19,156	52,655
Net income per share				
Basic	$ 0.04	$ 0.05	$ 0.14	$ 0.39
Diluted	$ 0.04	$ 0.05	$ 0.13	$ 0.38
Price range per share	$17.59–$26.76	$22.15–$33.83	$22.52–$35.50	$20.91–$27.50
Number of shares used in per share calculations:				
Basic	128,351	131,020	133,251	134,414
Diluted(2)	134,886	139,658	147,365	139,820

	1ST	2ND	3RD	4TH
	(in thousands, except per share data)			
QUARTERLY FISCAL 2003:				
Total revenue	$197,520	$184,569	$187,059	$186,086
Gross margin	78,994	72,490	75,221	77,124
Restructuring charges, net(1)	—	2,053	4,043	9,805
Operating income (loss)	4,253	(1,017)	(1,048)	(7,573)
Loss on equity derivative contracts in Company stock	(16,407)	—	—	—
Net income (loss)	(13,714)	1,479	797	3,699
Net income (loss) per share				
Basic	$ (0.11)	$ 0.01	$ 0.01	$ 0.03
Diluted	$ (0.11)	$ 0.01	$ 0.01	$ 0.03
Price range per share	$8.61–$18.60	$6.63–$17.31	$10.70–$14.38	$10.77–$20.20
Number of shares used in per share calculations:				
Basic	126,931	125,411	125,988	126,872
Diluted	126,931	128,537	129,550	131,420

(1) Restructuring charges, net exclude restructuring recoveries included in cost of goods sold and reflected in gross margin of ($1.7) million and ($1.0) million, for the years ended June 27, 2004 and June 29, 2003, respectively. These amounts relate to the write-off of selected, older product line inventories in connection with our

restructuring plans and the partial recovery of these charges from the subsequent sale of a portion of such inventories. The restructuring recoveries are included as a component of cost of goods sold in accordance with EITF 96-9.

(2) Diluted net income per share for the third fiscal quarter ended March 28, 2004 includes the assumed conversion of the convertible subordinated 4% notes. Accordingly, interest expense, net of taxes, of $0.4 million must be added back to net income for computing diluted net earnings per share.

Stock and Dividend Information:

Our Common Stock is traded on the Nasdaq National Market under the symbol LRCX. The price range per share is the highest and lowest bid prices, as reported by the National Association of Security Dealers, Inc., on any trading day during the respective quarter.

As of August 29, 2004, we had 542 stockholders of record.

In fiscal 2004 and 2003 we did not declare or pay cash dividends to our stockholders. We currently have no plans to declare and pay cash dividends.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion of our financial condition and results of operations contains forward-looking statements, which are subject to risks, uncertainties and changes in condition, significance, value and effect. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including but not limited to those discussed in "Risk Factors" and elsewhere in this Annual Report on Form 10-K and other documents we file from time to time with the Securities and Exchange Commission. (See "Cautionary Statement Regarding Forward-Looking Statements" in Part I of this Annual Report on Form 10-K).

Results of Operations

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

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Over the past three business cycles, the severity of these fluctuations has increased, and today's leading indicators of changes in customer investment patterns may not be any more reliable than in prior years. Demand for our equipment can 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 fiscal 2004, 2003, and 2002 may not necessarily be indicative of future operating results.

Strengthening demand that we had noted early in fiscal 2004 and our belief that we are gaining market share manifested themselves in the progression of our quarterly revenues. We have continued to focus on our systems and service competitiveness and the implementation of strategies aimed at achieving a more variable cost structure. These efforts, combined with higher volumes, are illustrated by gross margin improvements year over year, including both fiscal 2004 and fiscal 2003.

In the fourth quarter of fiscal 2004, we decided to cease further investment in CMP systems development. This decision was based on the conclusion that the product did not demonstrate sufficient advantages to garner the market share necessary for adequate returns on further investment.

Also during the fourth quarter of fiscal 2004, we repaid in full our convertible subordinated 4% notes (4% Notes), two years prior to maturity, and we settled our interest rate swap agreement (the swap) which had been used to minimize the impact of interest rate exposure associated with our fixed rate 4% Notes.

We continue to invest significantly in research and development to strengthen our product and service offerings and competitive position. Increases in operating expenses during fiscal 2004 were primarily due to a growth in salary and benefits costs, a result of planned increases of employee compensation to competitive levels and incentive-based benefits triggered by higher profits. In addition, spending increased during fiscal 2004 for discretionary information technology projects designed to contribute to productivity improvements across the Company. These costs have been partially offset by a decrease in facilities-related expenses as a result of infrastructure rationalization and consolidation.

Total Revenue

	Year Ended			Percent Change	
	June 27, 2004	June 29, 2003	June 30, 2002	2004 versus 2003	2003 versus 2002
		(in thousands)			
Revenue	$935,946	$755,234	$943,114	23.9%	(19.9%)

The increase in revenues for fiscal year 2004 compared to the prior year is reflective of a market environment that has improved, evidenced by expanded levels of capital investments by semiconductor manufacturers. Signs of improvement in demand for wafer processing equipment, noted early in 2004, continued through the year. These improvements in demand as well as our belief of market share gains are evidenced by the progression of our quarterly revenues. The overall increase in our revenues is influenced by increased demand, system installation cycles and customer acceptances. Our current estimate for revenues for the September 2004 quarter is approximately $400 to $415 million.

The decrease in revenue for fiscal year 2003 compared to fiscal year 2002 reflected our customers' response to excess capacity in the semiconductor industry, which was significantly influenced by the retrenchment of the global economy and levels of end-user demand for products servicing telecommunications, computer, and consumer electronics markets. Semiconductor manufacturers selectively invested in leading-edge technology equipment through fiscal 2003. Overall, demand remained relatively flat during fiscal 2003.

Based on the guidance provided by Securities and Exchange Commission Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements," as amended by Securities and Exchange Commission Staff Accounting Bulletin No. 104 (SAB 104), "Revenue Recognition," we generally recognize new systems revenue when we receive customer acceptance or are otherwise released from our customer acceptance obligations. Refer to our discussion of "Critical Accounting Policies" within this document for additional information about our revenue recognition policy. Where customer acceptance provisions exist, the fiscal period in which we are able to recognize systems revenue is typically determined based on the length of time that our customers require to evaluate the performance of our equipment to agreed standards and specifications. In accordance with SAB 104, 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. Consideration from multiple element arrangements is allocated among the separate units 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. On average, revenue recognition for systems normally occurs from two to five months after the date of shipment. Spares and system upgrade revenues are generally recognized on the date of shipment, and service revenues are generally recognized upon performance of the activities requested by the customer, including training and extended warranty support.

Regional geographic breakdown of revenue is as follows:

	Year Ended		
	June 27, 2004	**June 29, 2003**	**June 30, 2002**
North America	18%	28%	29%
Europe	19%	20%	21%
Asia Pacific	52%	44%	35%
Japan	11%	8%	15%

The Asia Pacific region has historically accounted for a significant portion of our revenues as a substantial amount of the worldwide capacity for semiconductor manufacturing is located within this region; this trend has continued. The growth in Asia Pacific revenues during fiscal year 2004 predominantly occurred in Taiwan and Singapore. The fiscal 2003 increase in Asia Pacific revenues reflected expanded foundry capabilities and investments by certain of our customers to support the introduction of latest-generation integrated circuit manufacturing.

Gross Margin

	Year Ended			Percent Change	
	June 27, 2004	June 29, 2003	June 30, 2002	2004 versus 2003	2003 versus 2002
	(in thousands, except percentages)				
Gross Margin	$431,049	$303,829	$266,089	41.9%	14.2%
Percent of total revenue	46.1%	40.2%	28.2%		

We have continued to focus on systems design to achieve more efficient purchasing and installation processes. Our performance is evidenced by six successive quarters' progression of gross margin as a percent of total revenues. The increase in gross margin as a percent of total revenues of approximately six percentage points in fiscal 2004 compared with fiscal 2003 is primarily due to improved utilization of factory and field resources, expense management programs, and improved sales volumes throughout the year. Fiscal 2004 gross margin includes $2.4 million of asset impairment charges related to our discontinuance of work on CMP systems development as discussed earlier in the introductory paragraph within "Results of Operations" in this section. During fiscal 2004 and fiscal 2003, we recovered and recorded, in cost of goods sold, $1.7 million and $1.0 million, respectively, from unanticipated sales of certain inventories previously written off as part of our September 2001 restructuring.

We expect that gross margin as a percent of total revenue will be approximately 50% during the September 2004 quarter.

The primary objectives of our strategy to outsource manufacturing activities included a plan to avoid future fixed cost infrastructure and to achieve a more variable cost structure, by establishing transaction-based pricing agreements with vendors. In addition, we have realized opportunities to achieve lower material and assembly costs through improved systems design and leverage from a more focused supplier base.

Our restructuring plans, combined with ongoing cost management activities have supported improved utilization rates in our manufacturing and customer support operations, also contributing to the improvement in gross margin as a percentage of revenue in the two most recent fiscal years.

The manufacturing assembly outsourcing model has required fundamental changes within the supply chain and within our business processes. One objective of this strategy is to minimize certain costs related to holding inventories and managing product lifecycles. In this context, we had incurred incremental excess and obsolete inventory charges of $24.1 million in the second fiscal quarter of 2002, and $5.9 million of inventory restructuring expenses. The charges in fiscal 2002 reflected the known and anticipated impact of the downturn on our business at that point in time. The reduction in excess and obsolete inventory costs in fiscal 2003 reflects more stability in quarter-on-quarter business levels during the year and our continued emphasis on the minimization of costs discussed above.

Approximately 5 percentage points of year-over-year improvement in gross margin as a percentage of revenues for fiscal 2003 reflects the $38.8 million of charges to cost of goods sold related to a patent litigation settlement in fiscal 2002. In the second fiscal quarter of 2002, we signed a final settlement agreement in connection with a patent infringement claim by Varian Semiconductor Equipment Associates, Inc. (Varian). We agreed to pay Varian $20.0 million in cash and issued them a warrant to purchase 2,000,000 shares of our common stock with a fair value of $21.5 million. In connection with this settlement, we recorded a charge of $38.8 million in fiscal 2002, and the remaining amount of the settlement, $2.7 million, represented the value of future licensed use of patents we received. The $2.7 million relating to the license was amortized ratably over the subsequent 10 quarters as a charge to cost of goods sold. The $2.7 million license was fully amortized at June 27, 2004.

Research and Development

	Year Ended			Percent Change	
	June 27, 2004	June 29, 2003	June 30, 2002	2004 versus 2003	2003 versus 2002
	(in thousands, except percentages)				
Research & Development	$170,479	$160,493	$179,217	6.2%	(10.4%)
Percent of total revenue	18.2%	21.3%	19.0%		

To better position ourselves competitively, we continue to invest significantly in research and development aiming at strengthening our product and services portfolio via the introduction of next-generation products as well as enhancement of our existing offerings. Approximately 65% of fiscal 2004 systems revenues are derived from products introduced over the previous two years. The decrease in expenses as a percent of total revenues is due to increased sales volumes as our fiscal year 2004 revenue growth was nearly four times our R&D expense growth rate. The growth in spending between fiscal 2004 and fiscal 2003 is primarily due to increases in salary and benefits costs of approximately $10 million, a result of planned increases of employee compensation to competitive levels and incentive-based benefits triggered by higher profits. Approximately $2 million of the overall increase occurred throughout several categories and was due primarily to the increase in business activity. These costs were partially offset by reductions in facilities-related expenses, largely reflected in reduced depreciation costs of roughly $2 million, due to infrastructure rationalization and consolidation. We do not expect that our decision to cease further investment in CMP systems development will have a significant impact on future R&D expense levels.

Spending in fiscal 2003 decreased compared to fiscal 2002 and included a reduction in employee-related expenses and supplies expenses of approximately $6 million, and lower infrastructure costs, principally reflected in reduced depreciation and amortization of another $6 million. Fiscal 2002 expenses included approximately $5 million related to impairment charges and write-downs in the value of selected laboratory equipment, which was determined to be no longer useful due to technological changes. The increase in R&D expenses as a percentage of revenues in fiscal 2003 compared to fiscal 2002 is the result of the lower sales volume in fiscal 2003.

Selling, General and Administrative

	Year Ended			Percent Change	
	June 27, 2004	June 29, 2003	June 30, 2002	2004 versus 2003	2003 versus 2002
	(in thousands, except percentages)				
Selling, General & Administrative (SG&A)	$146,063	$132,820	$161,860	10.0%	(17.9%)
Percent of total revenue	15.6%	17.6%	17.2%		

Significant increases in profits during fiscal 2004 supported the Company increasing employee compensation in fiscal year 2004 by nearly $12 million; a result of planned increases of employee compensation to competitive levels and incentive-based benefits triggered by higher profits. Also contributing to the fiscal 2004 SG&A expense growth was a rise in outside services of approximately $5 million primarily due to costs incurred for discretionary information technology projects designed to contribute to productivity improvements across the Company. A decrease of approximately $4 million, primarily in depreciation expense, due to infrastructure rationalization and consolidation partially offset the rise in expenses noted above.

Infrastructure rationalization and consolidation, including reduced facilities, contributed the majority of the annual cost reduction from fiscal 2002 to fiscal 2003. In addition, SG&A expenses in fiscal 2002 included a $4.2 million impairment charge related to the write-down in value of certain demonstration equipment used in sales and marketing activities, which was determined to be no longer useful due to technological changes.

We expect total operating expenses will be approximately $95 million during the September 2004 quarter.

Restructuring Charges

We have developed plans and incurred restructuring charges to respond to the high level of volatility and, at times, depressed levels of capital investment by the semiconductor industry. The frequency of our restructuring plans has been driven by the unpredictable and substantial changes in the semiconductor industry as a whole and the market for semiconductor processing equipment in particular. These dynamic changes in the semiconductor industry and our business have required multiple integrated responses, including those activities within our restructuring plans, based on the best information and industry-expert forecasts available at that point in time. Although management makes every attempt to consolidate all known restructuring activities into one plan, the extreme nature of our industry's business cycles and the rapidly changing forecasting environment places practical limitations on achieving this objective. The implementation of restructuring activities and recognition of their impact in our financial statements does not preclude similar but unrelated actions from being necessary in future periods.

We systematically review our revenue outlook and forecasts and assess their impact on required employment levels, facilities utilization, and outsourcing activities. Based on these evaluations, our senior management committed to cost reduction and exit activities in the quarters ended March 28, 2004 (the March 2004 Plan), December 28, 2003 (the December 2003 Plan), September 28, 2003 (the September 2003 Plan), June 29, 2003 (the June 2003 Plan), March 30, 2003 (the March 2003 Plan), December 29, 2002 (the December 2002 Plan), December 30, 2001 (the December 2001 Plan), and September 23, 2001 (the September 2001 Plan).

Prior to the end of each quarter noted above, we initiated the announced restructuring activities and management with the proper level of authority approved specific actions under the respective Plan. Severance packages to potentially impacted employees were communicated in enough detail such that the employees could determine their type and amount of benefit. The termination of the affected employees occurred as soon as practical after the restructuring plans were announced. The amount of remaining future lease payments for facilities we ceased to use and included in the restructuring charges is based on management's estimates using known prevailing real estate market conditions at that time based, in part, on the opinions of independent real estate experts. Leasehold improvements relating to the vacated buildings were written off, as these items will have no future economic benefit to us and have been abandoned.

We distinguish regular operating cost management activities from restructuring activities. Accounting for restructuring activities requires an evaluation of formally committed and approved plans. Restructuring activities have comparatively greater strategic significance and materiality and may involve exit activities, whereas regular cost containment activities are more tactical in nature and are rarely characterized by formal and integrated action plans or exiting a particular product, facility, or service.

As of June 27, 2004, the overall restructuring reserve balance consisted of the following:

	SEVERANCE AND BENEFITS	FACILITIES	TOTAL
		(in thousands)	
Fiscal 2004 restructurings	$ 30	$ 2,077	$ 2,107
Fiscal 2003 restructurings	183	6,451	6,634
Fiscal 2002 restructurings	389	3,496	3,885
Pre-fiscal 2002 restructurings	—	1,228	1,228
Balance at June 27, 2004	$602	$13,252	$13,854

The severance and benefits-related costs are anticipated to be utilized by the end of fiscal year 2005. The facilities balance consists primarily of lease payments on vacated buildings and is expected to be utilized by the end of fiscal year 2010.

Fiscal 2004 Restructuring Activities

We recorded net restructuring charges during fiscal year 2004 of approximately $6.7 million, consisting of severance and benefits for involuntarily terminated employees of $1.2 million, charges for the present value of remaining lease payments on vacated facilities of $2.8 million, and the write-off of related leasehold improvements of $1.6 million. We also recorded a charge of approximately $1.0 million for the cancellation of a lease agreement related to one of our facilities in Japan and $2.1 million for the write-off of related leasehold improvements. Furthermore, we recognized $1.9 million of additional facilities-related expenses due to changes in estimates of restructuring plans initiated prior to fiscal 2004. Charges during the year were partially offset by recovery of $1.5 million, net, of previously accrued expenses related to the remaining lease payments on vacated facilities in Japan. Additional offsetting items include recovery of $0.7 million due to lower than previously estimated employee severance and benefits costs and $1.7 million of recovered inventory from unanticipated sales to our installed base of certain portions of inventory previously written off as part of our September 2001 restructuring. The inventory recovery was recorded as a credit in cost of goods sold.

As a result of the fiscal 2004 restructuring activities, we expect quarterly savings, relative to the cost structure immediately preceding the activities, in total expenses of approximately $0.3 million from the March 2004 Plan, $0.7 million from the December 2003 Plan and $0.5 million from the September 2003 Plan. The majority of the savings are expected to be realized within Operating Expenses, mainly Selling, General and Administrative expenses. These estimated savings from the Plans' discrete actions are primarily related to lower employee payroll, facilities, and depreciation expenses. Actual savings may vary from these forecasts, depending upon future events and circumstances, such as differences in actual sublease income versus estimated amounts. Through June 27, 2004, we believe actual savings from these Plans are largely consistent with original estimated quarterly savings.

March 2004 Plan

We recorded a restructuring charge during the quarter ended March 28, 2004 of approximately $3.0 million, consisting of charges for the cancellation of a lease agreement related to one of our facilities in Japan, deemed to be no longer useful to our operations, of $1.0 million, and the write-off of related leasehold improvements of $2.0 million.

Below is a table summarizing activity relating to the March 2004 Plan:

	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)	
March 2004 provision	$ 950	$ 2,088	$ 3,038
Cash payments	(950)	—	(950)
Non-cash charges	—	(2,088)	(2,088)
Balance at June 27, 2004	$ —	$ —	$ —

December 2003 Plan

Our December 2003 Plan activities included reducing our workforce by less than 20 employees, primarily in North America and by vacating a facility located in North America deemed to be no longer useful to our operations. The employees included in the Plan were from a range of functions and at different levels of the organization. We recorded a restructuring charge during the quarter ended December 28, 2003 of approximately $4.2 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements.

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
December 2003 provision	$ 350	$2,305	$ 1,514	$ 4,169
Reversal of restructuring charges	—	(18)	—	(18)
Cash payments	(350)	(244)	—	(594)
Non-cash charges	—	—	(1,514)	(1,514)
Balance at June 27, 2004	$ —	$2,043	$ —	$ 2,043

September 2003 Plan

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

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
September 2003 provision	$ 713	$ 394	$ 123	$ 1,230
Additional restructuring charges	48	—	—	48
Reversal of restructuring charges	(69)	(7)	—	(76)
Cash payments	(662)	(353)	—	(1,015)
Non-cash charges	—	—	(123)	(123)
Balance at June 27, 2004	$ 30	$ 34	$ —	$ 64

Fiscal 2003 Restructuring Activities

As a result of the fiscal 2003 restructuring activities, we expect quarterly savings, relative to the cost structure immediately preceding the activities, of approximately $1.0 million from the June 2003 Plan, $1.0 million from the March 2003 Plan, and $3.0 million from the December 2002 Plan. The majority of the savings are expected to be realized within Operating Expenses, mainly Selling, General and Administrative expenses. These estimated savings are primarily from lower payroll, facilities, and depreciation expenses. Actual results may vary from those anticipated, depending upon future events and circumstances, such as differences in actual sublease income versus estimated amounts. Through June 27, 2004, we believe realized savings are consistent with original forecasts. However, other factors may significantly influence our future cost structure and, consequently, partially or totally offset savings from these Plans.

June 2003 Plan

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

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
June 2003 provision	$ 783	$6,656	$ 210	$ 7,649
Cash payments	(366)	(388)	—	(754)
Non-cash charges	—	—	(210)	(210)
Balance at June 29, 2003	417	6,268	—	6,685
Cash payments	(374)	(847)	—	(1,221)
Reversal of restructuring charges	(37)	(2)	—	(39)
Additional restructuring charges	—	84	—	84
Balance at June 27, 2004	$ 6	$5,503	$ —	$ 5,509

March 2003 Plan

Our March 2003 Plan activities included reducing our workforce in North America and Europe by approximately 50 people and by vacating selected sales and administrative facilities located in North America deemed to be no longer required for our operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America. We recorded a restructuring charge during the quarter ended March 30, 2003, of approximately $4.7 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements. We recovered $0.3 million during fiscal 2004 due to a change in estimates related to our facilities. Additionally, during fiscal 2004 $0.3 million were recovered due to lower than previously estimated employee severance and benefits costs.

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
March 2003 provision	$1,658	$2,913	$ 171	$ 4,742
Cash payments	(855)	(757)	—	(1,612)
Non-cash charges	(228)	—	(171)	(399)
Balance at June 29, 2003	575	2,156	—	2,731
Cash payments	(255)	(959)	—	(1,214)
Reversal of restructuring charges	(280)	(283)	—	(563)
Balance at June 27, 2004	$ 40	$ 914	$ —	$ 954

December 2002 Plan

Our December 2002 Plan activities included reducing our workforce in North America, Europe, and Asia by approximately 120 employees and by vacating selected sales and administrative facilities located in North America, Europe and Asia deemed to be no longer necessary for our operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with approximately 65% from North America and approximately 35% from Europe and Asia locations. We recorded a restructuring charge of $5.7 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements. During fiscal 2004 we recovered $0.1 million due to the difference between the costs previously accrued and actual costs to terminate a lease agreement related to a facility in Japan.

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
December 2002 provision	$ 3,257	$ 1,945	$ 474	$ 5,676
Cash payments	(3,112)	(487)	—	(3,599)
Non-cash charges	—	(49)	(474)	(523)
Balance at June 29, 2003	145	1,409	—	1,554
Reversal of restructuring charges	—	(90)	—	(90)
Cash payments	(8)	(1,285)	—	(1,293)
Balance at June 27, 2004	$ 137	$ 34	$ —	$ 171

Fiscal 2002 Restructuring Activities

December 2001 Plan

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

During fiscal 2004, we recorded approximately $0.4 million of additional restructuring charges due to a revision in estimates for one of our vacated facilities and we recovered approximately $1.4 million, net, due to the difference between the costs previously accrued and actual costs to terminate a lease agreement for a facility for which we entered into a lease cancellation agreement during the quarter ended March 28, 2004. During fiscal 2003, we recovered approximately $3.8 million of restructuring charges originally accrued under the December 2001 Plan, $2.1 million for benefits offered that were not utilized by terminated employees and approximately $1.7 million related to a revision to the net amount of lease payments remaining on vacated facilities. In addition, during fiscal 2003, we recorded approximately $3.0 million of additional restructuring charges of which $2.5 million were due to revisions we made in sublease assumptions for two of our vacated buildings in Fremont, California and approximately $0.1 million due to additional facility restoration costs. The remaining $0.4 million of expenses were due to revisions we made in our estimates for employee termination costs.

September 2001 Plan

During the first quarter of fiscal 2002, our restructuring activities included a reduction of approximately 550 employees in North America, Europe and Asia, vacating selected facilities at our Fremont, California campus deemed to be no longer required for our operations and discontinuance of the manufacture of specific products within our etch product lines. The employees were from a broad range of functions and at multiple levels of the organization, with approximately 85% from North America and 15% from Europe and Asia locations. We recorded a restructuring charge of $21.0 million which included severance and benefits for involuntarily terminated employees, charges for remaining lease payments and write-offs of leasehold improvements on vacated facilities, and inventory write-downs. The inventory charge of approximately $7.6 million related to our decision to discontinue manufacture of specific systems within our etch product lines. We recovered approximately $1.7 million during fiscal year 2004, $1.0 million during fiscal year 2003, and $0.7 million during fiscal year 2002, from unanticipated subsequent sales to our installed base of these items. We physically disposed of approximately $1.0 million of this inventory during fiscal 2004 and $2.7 million during fiscal 2003 and 2002.

During fiscal 2003, approximately $0.9 million was recovered due to lower employee severance and termination costs of $0.6 million and lower than planned expenses for vacated facility leases of $0.3 million. In addition, we recorded additional charges of $0.6 million for the September 2001 Plan based on a revised estimate of the length of time required to sublease one of our vacated buildings in Fremont, California.

During fiscal 2002, we recovered approximately $1.0 million of the September 2001 Plan charge due to lower than estimated employee termination costs of $0.7 million and lower than planned expenses relating to a vacated facility lease of $0.3 million.

Fiscal 2001 Restructuring Plans

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

Other Income (Expense), net

Other income (expense), net, was $4.5 million, ($10.3) million and ($8.2) million in fiscal years 2004, 2003, and 2002, respectively, and consisted of the following:

	Year Ended		
	June 27, 2004	June 29, 2003	June 30, 2002
Interest income	$ 9,915	$ 15,804	$ 31,703
Loss on equity derivative contracts	—	(16,407)	(8,236)
Interest expense	(4,634)	(6,096)	(26,185)
Foreign exchange gain (loss)	(1,334)	(272)	1,982
Debt issue cost amortization	(1,593)	(2,536)	(3,763)
Net gain on settlement of swap and retirement of 4% Notes	4,505	—	—
Equity method investment losses	(426)	(777)	(835)
Equity method investment impairment	—	—	(2,000)
Other, net	(1,963)	24	(823)
	$ 4,470	$(10,260)	$ (8,157)

During fiscal 2004, our total cash balances, which consist of cash and cash equivalents, short-term investments, and restricted cash, increased each quarter through March 28, 2004. These increases in cash balances allowed us to repay, in the June 2004 quarter, our 4% Notes prior to maturity as discussed below. Although cash balances increased throughout the first three quarters of the year, interest income decreased during fiscal 2004 as a result of lower market rates. The decline in interest expense and debt issue cost amortization in fiscal 2004 is largely due to the redemption of our 5% $300.0 million subordinated debentures (5% Notes) in September 2002.

During the quarter ended June 27, 2004, we repaid in full our 4% Notes, two years prior to maturity. The repayment of the 4% Notes resulted in a cash outlay of $303.0 million, which included a redemption premium of $3.0 million. Additionally, during the same quarter, we settled the related interest rate swap agreement (the swap) which had been used to minimize the impact of interest rate exposure associated with our 4% Notes. This settlement resulted in an increase in cash of $10.9 million and, in addition, a transfer of $6 million from restricted cash to cash balances. As a result of the repayment of the 4% Notes and swap settlement, we recorded a net gain of $4.5 million included in other income (expense), net. The $4.5 million consisted of a $10.9 million gain related to the swap less the $3.0 million redemption premium and write-off of $3.4 million of unamortized offering expenses associated with the 4% Notes.

The change in net other expense in fiscal 2003 compared to fiscal 2002 was primarily due to the settlement of our equity derivative instruments indexed to Lam stock and lower yields on investments due to declining interest rates partially offset by lower interest expense due to the redemption of our 5% Notes in September 2002.

On August 23, 2002, we settled our outstanding equity derivative contracts by purchasing approximately 3.5 million shares of Lam common stock at an average price of $11.19 per share for a total cash payment of $39.1 million. The settlement generated a life to date gain of $8.4 million ($2.41 per share) and we recognized an increase in treasury stock of $47.6 million as a result of this transaction. Based on the $13.60 market price of our common stock at the contract settlement date (August 23, 2002), the fair value of the equity derivative contracts declined by $16.4 million to $8.4 million, from their June 30, 2002 fair value of $24.8 million. This $16.4 million reduction in the equity derivative contracts' fair value was recorded as a non-taxable loss in other expense in fiscal 2003.

Tax Expense (Benefit)

Our annual income tax expense (benefit) was $27.7 million, ($7.9) million, and ($37.9) million, in fiscal years 2004, 2003, and 2002, respectively. The losses on equity derivative contracts indexed to our stock in fiscal years 2003 and 2002 of $16.4 million and $8.2 million, respectively, were non-deductible for income tax purposes. In April 2003, the Internal Revenue Service (IRS) closed its examination of our tax returns for fiscal years up to and including the fiscal year ended June 30, 1998. Resolution was reached on a number of issues including adjustments related to R&D tax credits resulting in our recording a $24.9 million tax benefit in the fourth quarter of fiscal 2003. In addition, a tax expense of approximately $17.0 million associated with implementing strategies to, in the longer-term, limit our tax liability on the sale of our products worldwide was recorded in the fourth quarter of fiscal 2003. These tax strategies are structured to align the asset ownership and functions of our various legal entities around the world, with our expectations of the level, timing, and sources of future revenues and profits. In the first quarter of fiscal 2002, we increased our tax benefit rate to 30%. The increase resulted from the tax benefit of the R&D credit being proportionately greater in subsequent quarters due to lower projected pre-tax income and investment in engineering and development programs qualifying for R&D tax benefits.

Deferred Tax Assets

We had gross deferred tax assets arising from non-deductible temporary differences, net operating losses, and tax credit carryforwards of $303.3 million and $287.5 million in fiscal 2004 and 2003. The gross deferred tax assets are offset by valuation allowances of $67.8 million and $36.7 million and deferred tax liabilities of $26.3 million and $30.7 million in fiscal 2004 and 2003, respectively. Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. We evaluate the realizability of the deferred tax assets quarterly and will continue to assess the need for additional valuation allowances, if any.

Outsourcing

We define aspects of our business as either core or critical capabilities and those that are in support of these activities. We have identified as critical for success in the marketplace our ability to develop leading edge products, to market and sell what we develop, and to service and support directly what we sell. Most other activities in the Company are in support of product development, marketing and selling and customer service. Consequently, in the fourth quarter of fiscal 2001, we began implementation of an outsourcing strategy to obtain certain support services from third parties. Accordingly, during fiscal 2002, we began to enter into agreements to outsource elements of our manufacturing, warehousing, logistics, facilities management and information technology functions. During fiscal 2003 and 2004, we continued to enter into agreements to outsource certain elements of our transactional general and administrative functions. We believe that entering into these outsourcing programs will provide us with more flexibility to scale our operations in a more timely and efficient manner to respond to the cyclical nature of our business. Implementing this outsourcing strategy is intended to lead to proportionally more of our employees supporting core activities and decrease our reliance on temporary workforce during peak business cycles as well as reduce the fluctuation in employment that historically occurred due to the cyclical nature of our business.

Related Party Transactions

During fiscal year 2001, our President and Chief Operating Officer signed a promissory note with Lam entitling him to borrow up to $1.0 million dollars at 6.75% simple interest. He was advanced the $1.0 million and subsequently repaid the entire amount of $1.0 million, plus accrued interest, during the quarter ended December 28, 2003.

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.

The significant accounting policies used in the preparation of our financial statements are described in Note 2 of our Notes to Consolidated Financial Statements. Some of these significant accounting polices are considered to be critical accounting policies. A critical accounting policy is defined as one that has both a material impact on our financial condition and results of operations and requires us to make difficult, complex and/or subjective judgments, often as a result of the need to make estimates about matters that are inherently uncertain.

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

Revenue Recognition: We recognize all revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, collectibility is reasonably assured, and we have completed our system installation obligations, received customer acceptance or are otherwise released from our installation or customer acceptance obligations. In the event that terms of the sale provide for a lapsing customer acceptance period, we recognize revenue upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. In circumstances where the practices of a customer do not provide for a written acceptance and in addition, the terms of sale do not include a lapsing acceptance provision, we recognize revenue where it can be reliably demonstrated that the delivered system meets all of the agreed to customer specifications. 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. Consideration from multiple element arrangements is allocated among the separate units 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, system upgrade kits, and remanufactured systems 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 and a term more than one month 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.

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 activities, 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, marketing and selling semiconductor capital equipment includes providing parts and service warranty to customers as part of the overall price of the system. We provide standard warranties for our systems that run generally for a period of 12 months from system acceptance, not to exceed 14 months from shipment of the system to the customer. We record a provision for estimated warranty expenses to cost of sales for each system upon revenue recognition. The amount recorded is based on an analysis of historical activity, which uses factors such as type of system, customer, geographic region, and any known factors such as tool reliability improvements. All actual parts and labor costs incurred in subsequent periods are charged to those established reserves through the application of detailed project record keeping.

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

We do not maintain general or unspecified reserves; all warranty reserves are related to specific systems. Historically, including the most recent fiscal year ended June 27, 2004, all warranty obligations have been determined with reasonable estimates.

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

Employee Stock Purchase Plan and Employee Stock Option Plans: We account for our employee stock purchase plan (ESPP) and stock option plans under the provisions of Accounting Principles Board (APB) Opinion No. 25 "Accounting For Stock Issued to Employees" (APB 25) and Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25" (FIN 44) and make pro forma footnote disclosures as required by Statement of Financial Accounting Standards No. 148, "Accounting For Stock-Based Compensation — Transition and Disclosure" (SFAS 148), which amends Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation" (SFAS 123). Our ESPP is a non-compensatory plan, and our stock option plans are accounted for using the intrinsic value method under the provisions of APB 25.

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

Deferred Income Taxes: 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. Our current valuation allowance of $67.8 million relates to the tax benefit from the exercise of employee stock options and foreign tax credits. When the stock option tax benefits are realized, the related deferred tax asset will reverse and a portion of the valuation allowance will also be reversed and credited to capital in excess of par value.

Off -Balance Sheet Arrangements and Contractual Obligations

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

	OTHER LONG-TERM LIABILITIES	RESTRUCTURING LIABILITIES	OPERATING LEASES	PURCHASE OBLIGATIONS	TOTAL
			(in thousands)		
Payments due by period:					
Less than 1 year	$2,500	$ 5,093	$ 13,894	$108,142	$129,629
1–3 years	730	6,986	13,718	54,750	76,184
4–5 years	62	1,748	102,034	41,498	145,342
Over 5 years	—	27	388	1,825	2,240
Total	$3,292	$13,854	$130,034	$206,215	$353,395

Other Long-Term Liabilities

During the second quarter of fiscal 2002 we signed a final settlement agreement with Varian Semiconductor Equipment Associates, Inc. (Varian) in connection with the patent infringement litigation filed by Varian in October 1993. Under the terms of the settlement agreement, Varian granted us a non-exclusive license to the patents involved in the litigation. We agreed to pay Varian $20.0 million in cash, $5.0 million in December 2001 and the remainder to be paid in equal quarterly installments of $1.25 million over a three-year period. As of June 27, 2004, a total amount of $17.5 million has been paid to Varian and the total obligation remaining is $2.5 million through December 2004.

Restructuring Liabilities

Our total restructuring reserves as of June 27, 2004 were $13.9 million, including $0.6 million of severance and benefits-related costs and $13.3 million related to lease payments on vacated buildings. Through cash generated from operations, we expect $5.1 million to be paid over the next twelve months and $8.8 million to be paid between fiscal 2006 and fiscal 2010. Please see the related discussion in "Restructuring Charges" within "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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. All of our facility leases for buildings located at our Fremont, California headquarters and certain other facility leases provide us with an option to extend the leases for additional periods. Certain of our facility leases provide for periodic rent increases based on the general rate of inflation.

In March and June of 2003, lease agreements relating to properties at our Fremont, California campus were transferred to a new lessor, amended, combined and restated. As part of the lease agreements, we have the option to purchase the buildings at any time for a total purchase price for all properties related to these leases of approximately $112.5 million. In addition, we are required to guarantee the lessors a residual value on the properties of up to $98.7 million at the end of the lease terms in fiscal 2008 (in the case that the leases are not renewed, we do not exercise the purchase options, and the lessor sells the properties and the sale price is less than the lessor's costs). At the time of the June amendment, one of the leased property's current fair value was less than its original cost by approximately $1.0 million. The leased property was a building that had been part of our past restructuring activities, and the non-cash loss was recorded as a restructuring charge during fiscal 2003. As a result, we recorded a $1.0 million liability for the loss on the leased property. We maintain cash collateral of $112.5 million as part of the lease agreements as of June 27, 2004 in separate, specified interest-bearing accounts which is recorded as restricted cash in our 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 FIN 46, "Consolidation of Variable Interest Entities," and is therefore not consolidated by us. The $98.7 million is included in the table above.

The remaining $31.3 million primarily relates to non-cancelable facility-related operating leases expiring at various dates through 2021.

Purchase Obligations

Purchase obligations consist of material 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 elements, including elements of our manufacturing, warehousing, logistics, facilities maintenance, certain information technology functions, and certain transactional general and administrative functions. These outsourced services should provide us with more flexibility to scale our operations in a more timely and efficient manner to respond to the cyclical nature of our business. The contractual cash obligations and commitments table presented above contains our minimum obligations at June 27, 2004 under these arrangements and others. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to minimum spending commitments, certain of these agreements provide for potential cancellation charges.

Consignment inventories, which are owned by vendors but located in our discrete storage locations and warehouses, are not reported as Lam inventory until title is transferred to us or our purchase obligation is determined. At June 27, 2004, vendor owned inventories held at our locations and not reported as Lam inventory were approximately $14.6 million.

Guarantees

The transferred lease agreements relating to various properties at our Fremont, California campus and discussed above under “Operating Leases” require us to guarantee residual values of the leased properties to the lessors at the end of the lease terms of up to $98.7 million (in the case 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). The remaining terms of these guarantees, four years, are equal to the remaining terms of the related lease agreements. Under the accounting provisions of FIN 45, we recognized a liability of approximately $1.0 million for the related residual value guarantees under these leases. This liability, determined by computing the present value of estimated probability weighted cash flows to be paid by us over the term of the guarantees, was recorded as prepaid rent, with the offset recorded as a liability, and the amount is being amortized to rent expense (for the prepaid rent) and to income (for the liability) on a ratable basis over the five-year period of the leases. Refer to Note 16 of our Consolidated Financial Statements, included in Item 8 in this Form 10-K, for further information concerning our guaranteed residual values.

We have issued certain indemnifications to our lessors under some of our operating lease agreements, such as, indemnification for various environmental matters. We have entered into certain insurance contracts to minimize our exposure related to such indemnifications. As of June 27, 2004, we have not recorded any liability on our financial statements in connection with these indemnifications, as we do not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

We have agreements with two financial institutions where our U.S. operating company guarantees payment of our Japanese subsidiary’s overdraft protection obligation. The maximum potential amount of future payments that we could be required to make under these agreements at June 27, 2004, is approximately $5.6 million, the amount available under the overdraft protection agreement. As of June 27, 2004, our Japanese subsidiary did not owe any amounts under this agreement. We have not recorded any liability in connection with these guarantees, as we do not believe, based on information available, that it is probable that any amounts will be paid.

We have an agreement with a financial institution to sell certain U.S. Dollar-denominated accounts receivable generated from the sale of our systems, subject to recourse provisions. We insure these sold receivables for approximately 90% of their value and guarantee payment of the remaining uninsured receivable value in the event that the payment obligation is not satisfied. Based on historical payment patterns, we have experienced negligible default on payment obligations and therefore, believe the risk of loss from default is minimal. The terms of these guarantees are from 90 days past the due date of the receivable, until collected. At June 27, 2004, the maximum potential amount of future payments we could be required to make under this agreement is approximately

$6.0 million. As of June 27, 2004, we have not recorded any liability on our financial statements in connection with these guarantees, as we do not believe, based on information available, that it is probable that any amounts will be paid.

Generally, we indemnify our customers, under pre-determined conditions and limitations, for infringement of third-party intellectual property rights by our products or services. We seek to limit our liability for such indemnity to an amount not to exceed the sales prices of the products or services. We do not believe, based on information available, that it is probable that any material amounts will be paid under these guarantees.

We provide standard warranties on our 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 factors such as the impact of system reliability improvements. See Note 16 of our Consolidated Financial Statements, included in Item 8 in this Form 10K, for changes in our product warranty reserves during fiscal 2004.

Liquidity and Capital Resources

As of June 27, 2004, we had $541.9 million in cash, cash equivalents, short-term investments, and restricted cash compared with $625.9 million at June 29, 2003. Cash provided by operating activities of $157.1 million, issuance of common stock of $64.2 million and reissuance of treasury stock of $13.2 million resulted in net cash increases of $234.5 million which enabled us to repay early our 4% Notes, which resulted in a principal payment of $300.0 million. Additional significant uses of cash included capital expenditures of $24.0 million.

On April 1, 2004, we settled our swap which had been used to minimize the impact of interest rate exposure associated with our 4% Notes. This settlement resulted in an increase in cash of $10.9 million and, in addition, a transfer of $6.0 million from restricted cash to cash balances.

On June 7, 2004, we repaid our 4% Notes, two years prior to maturity. This repayment resulted in a cash outlay of $303.0 million, including a redemption premium of $3.0 million. Additionally, we wrote off $3.4 million of unamortized offering expenses.

We had a deferred gain of $10.9 million recorded on the balance sheet, in long-term debt and other long-term liabilities, related to the swap. As a result of the settlement of the swap and the redemption of the 4% Notes, we recorded a net gain of $4.5 million included in other income, net in our statement of operations. The net gain is comprised of the deferred gain noted above, less the redemption premium, write-off of unamortized offering expenses, and transaction-related costs.

During the second quarter of fiscal 2002 we signed a final settlement agreement with Varian Semiconductor Equipment Associates, Inc. (Varian) in connection with the patent infringement litigation filed by Varian in October 1993. Under the terms of the settlement agreement, Varian granted us a non-exclusive license to the patents involved in the litigation. We agreed to pay Varian $20.0 million in cash, $5.0 million in December 2001 and the remainder to be paid in equal quarterly installments of $1.25 million over a three-year period. As of June 27, 2004, a total amount of $17.5 million has been paid to Varian and the total obligation remaining is $2.5 million through December 2004.

Cash Flows From Operating Activities

Net cash provided by operating activities was $157.1 million in fiscal 2004, which consisted of net income for the year of $83.0 million, adjusted for non-cash charges of $48.9 million and sources of working capital of $25.2 million. Non-cash charges include items such as depreciation and amortization, restructuring charges, deferred income taxes, and the net non-cash gain recognized in fiscal 2004 as a result of the early retirement of our 4% Notes.

Significant changes in assets and liabilities during fiscal year 2004 include an increase of $138.4 million in accounts receivable due to increased sales volumes. We have an agreement with a financial institution to sell certain U.S. dollar-denominated accounts receivable. These sales of accounts receivable are intended to accelerate the collection of cash. We sold $158.7 million of accounts receivable during fiscal 2004. Deferred income taxes decreased by $10.9 million. Trade payables increased by $57.8 million due to increased expense levels as a result of improved business volumes and timing of payments. Accrued liabilities increased by $29.6 million primarily due to an increase in variable incentive-based compensation as well as a rise in income taxes payable as a result of the significant increase in profits. Deferred profits for shipments not yet recognized as revenue rose by $63.1 million, reflecting significantly increased rates of shipments and the timing of customer acceptances.

Cash Flows from Investing Activities

Net cash provided by investing activities during fiscal 2004 was $48.5 million. We sold $66.9 million, net, of short-term investments that contributed to the repayment of our 4% Notes in June, 2004. Net capital expenditures were $24.0 million and focused on computer equipment and machinery.

Net property and equipment was $42.4 million at June 27, 2004, compared to $48.8 million at June 29, 2003. This decrease is primarily due to $23.4 million of depreciation expense, $3.8 million in write-offs of leasehold improvements and certain fixed assets related to buildings that we have vacated due to restructuring activities, $2.4 million in write-offs related to our decision to cease investment in CMP systems development which, together, exceed the $24.0 million in capital expenditures discussed above.

Cash Flows from Financing Activities

Net cash used by financing activities in fiscal 2004 was $211.7 million and consisted primarily of the principal repayment of our 4% Notes in the amount of $300.0 million. In connection with the settlement of our interest rate swap agreement, we received proceeds of $10.9 million. We also reissued $13.2 million from treasury stock through our employee stock purchase program and net proceeds from the issuance of our common stock from stock option exercises totaled $64.2 million.

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 through ensuing business cycles. Based upon our current business outlook, our levels of cash, cash equivalents, and short-term investments at June 27, 2004 are expected to be sufficient to support our presently anticipated levels of operations, investments, and capital expenditures, through at least the next 12 months.

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

Risk Factors

Our Quarterly Revenues and Operating Results are Unpredictable

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

Factors that may cause our financial results to fluctuate unpredictably include, but are not limited to:

- economic conditions in the electronics and semiconductor industry generally and the equipment industry specifically;
- the extent that customers use our products and services in their business;
- timing of customer acceptances of equipment;
- the size and timing of orders from customers;

- customer cancellations or delays in our shipments, installations, and/or acceptances;
- changes in average selling prices and product mix;
- our ability in a timely manner to develop, introduce and market new, enhanced and competitive products;
- our competitors' introduction of new products;
- legal or technical challenges to our products and technology;
- changes in import/export regulations;
- transportation, communication, demand, information technology or supply disruptions based on factors outside our control such as acts of God, wars, terrorist activities and natural disasters;
- legislative, tax, 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;
- new or modified accounting regulations; and
- exchange rate fluctuations.

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

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

System sales constitute a significant portion of our total revenue. Our systems can typically range in price from approximately $0.4 million to $4.8 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 may be subject to the length of time that our customers require to evaluate the performance of our equipment after shipment and installation, which could cause our quarterly operating results to fluctuate.

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

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

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

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

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

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

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

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

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

We Have a Limited Number of Key Customers

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

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 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. Although we aim at selecting reputable providers and secure their performance on terms documented in written contracts, it is possible that one or more of these providers could fail to perform as we expect and such failure could have an adverse impact on our business. In addition, the expansive role of outsource providers has required and will continue to require us to implement changes to our existing operations and to adopt new procedures to deal with and manage the performance of these outsource providers. Any delay or failure in the implementation of our operational changes and new procedures could adversely affect our customer relationships and/or have a negative effect on our operating results.

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

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

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

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

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

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

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

Non-U.S. sales, as a percentage of total revenue, accounted for approximately 82% in fiscal 2004, 72% in fiscal 2003 and 71% in fiscal 2002. 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;
- regional economic and political conditions;

- changes in currency controls;
- differences in the enforcement of intellectual property and contract rights in varying jurisdictions;
- 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; and
- the need for technical support resources in different locations.

Many of these challenges 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 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-Pacific region. A significant trade disruption in these areas could have a material, adverse impact on our future revenue and profits.

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

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

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

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

The business cycle in the semiconductor equipment industry is characterized by frequent periods of rapid change in demand that challenge our management to adjust spending on operating activities. During periods of rapid growth or decline in demand for our products and services, we face significant challenges in maintaining adequate financial and business controls, management processes, information systems and procedures and in training, managing, and appropriately sizing 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 inabilities or inadequacies could have a material adverse effect on our business, operating results, financial condition, and cash flows.

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

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

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

- general market, semiconductor, or semiconductor equipment industry conditions;
- global economic fluctuations;
- variations in our quarterly operating results;
- variations in our revenues or earnings from levels that securities analysts forecast;
- announcements of restructurings, technological innovations, reductions in force, departure of key employees, consolidations of operations, or introduction of new products;
- government regulations;
- developments in, or claims relating to, patent or other proprietary rights;
- success or failure of our new and existing products;
- 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.

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

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

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

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

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

Third parties may assert infringement, unfair competition or other claims against us. From time to time, other parties send us notices alleging that our products infringe their patent or other intellectual property rights. In addition, our Bylaws and indemnity obligations provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from their service to Lam. In such cases, it is our policy either to defend the claims or to negotiate licenses or other settlements on commercially reasonable terms. However, we may be unable in the future to negotiate necessary licenses or reach agreement on other settlements on commercially reasonable terms, or at all, and any litigation resulting from these claims by other parties may materially adversely affect our business and financial results.

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

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

Compliance with Internal Control Attestation and Outside Audit Firm Independence

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required, beginning with our fiscal year ending June 26, 2005, to include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of fiscal 2005. Furthermore, our independent registered public accounting firm (Firm) will be 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 June 26, 2005. We have not yet completed our assessment of the effectiveness of our internal control. If we fail to timely complete this assessment, or if our independent registered public accounting 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 communicates with us at least annually regarding any relationships between the Firm and the Company that, in the Firm's professional judgment, might have a bearing on the Firm's independence with respect to the Company. If, for whatever reason, our independent registered public accounting firm finds that it cannot confirm that it is independent of the Company based on existing securities laws and registered public accounting firm independence standards, we could experience delays or other failures to meet our regulatory reporting obligations.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt obligations. We maintain a conservative investment policy, which focuses on the safety and preservation of our invested funds by limiting default risk, market risk, and reinvestment risk. The table below presents principal amounts and related weighted-average interest rates by year of maturity for our investment portfolio, long-term assets and long-term debt obligations at June 27, 2004 and June 29, 2003:

	June 27, 2004								June 29, 2003
	2005	2006	2007	2008	2009	THERE-AFTER	TOTAL	FAIR VALUE	TOTAL
	($ in thousands)								
Cash equivalents									
Fixed rate	$ 57,739	$ —	$ —	$ —	$ —	$—	$ 57,739	$ 57,739	$119,805
Average rate	1.20%	—	—	—	—	—	1.20%	—	1.14%
Short-term investments									
Fixed rate	$ 59,756	$123,851	$63,330	$15,471	$ 601	$—	$263,009	$261,069	$232,718
Average rate	1.78%	2.24%	3.27%	3.63%	4.60%	—	2.47%	—	2.20%
Auction rate preferreds									
Variable rate	$ 4,998	$ —	$ —	$ —	$ —	$—	$ 4,998	$ 5,000	$106,186
Average rate	1.29%	—	—	—	—	—	1.29%	—	1.48%
Restricted cash									
Fixed rate	$112,468	$ —	$ —	$ —	$ —	$—	$112,468	$112,468	$118,468
Average rate	1.00%	—	—	—	—	—	1.00%	—	1.06%
Total investment securities	$234,961	$123,851	$63,330	$15,471	$ 601	$—	$438,214	$436,276	$577,177
Average rate	1.25%	2.24%	3.27%	3.63%	4.60%		1.91%	—	1.61%
Long-term debt									
Fixed rate	$ —	$ —	$ —	$ —	$ —	$—	$ —	$ —	$300,000
Average Rate	—	—	—	—	—	—	—	—	4.00%

We mitigate default risk by investing in high credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to achieve portfolio liquidity and maintain a prudent amount of diversification.

We had no foreign exchange cash flow exposure related to our fixed rate 4% Notes.

We conduct business on a global basis in several major international currencies. As such, we are potentially exposed to adverse as well as beneficial movements in foreign currency exchange rates. For this reason, we enter into foreign currency forward contracts to minimize the impact of exchange rate fluctuations on the value of our Japanese Yen-denominated assets. The changes in the fair value of these contracts are recorded in other income and expense. In addition, we periodically hedge anticipated cash flow transactions with foreign currency forward contracts. We defer the gains and losses on these contracts and recognize them in income during the same period as the hedged transaction is recognized in income.

On June 27, 2004, the notional amount of outstanding Japanese Yen forward contracts that are designated as balance sheet hedges was $48.1 million. The unrealized gain on the contracts on June 27, 2004, was $0.1 million. A 15% appreciation of the Japanese Yen would result in an unrealized loss of $8.5 million. Depreciation in the exchange rate of the Japanese Yen of approximately 15% would result in an unrealized gain of $6.2 million.

Item 8. ***Consolidated Financial Statements and Supplementary Data***

The Consolidated Financial Statements required by this Item are set forth on the pages indicated at Item 15(a). The unaudited quarterly results of our operations for our two most recent fiscal years are incorporated herein by reference under Item 6, "Selected Consolidated Financial Data".

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

As of the close of our fiscal year ended June 27, 2004, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-14 and 13a-15. Based upon that evaluation, our Chairman and Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are reasonably effective in timely alerting them to material information relating to the Company (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

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

PART III

We have omitted from this Report certain information required by Part III because we, as the Registrant, will file a definitive proxy statement with the Securities and Exchange Commission (SEC) within 120 days after the end of our fiscal year, pursuant to Regulation 14A, as promulgated by the SEC, for our Annual Meeting of Stockholders to be held November 4, 2004 (the Proxy Statement), and certain information included therein is incorporated herein by reference. (However, the Report of the Audit Committee, Compensation Committee and the Comparative Stock Performance graph of the Registrant's Proxy Statement are expressly not incorporated by reference herein.) For information regarding our executive officers, see Part I of this Form 10-K under the caption "Executive Officers of the Company," which information is incorporated herein by this reference.

Item 10. *Directors and Executive Officers of the Registrant*

The information concerning our directors required by this Item is incorporated by reference to our Proxy Statement under the heading "Proposal No. 1 — Election of Directors."

Lam has adopted a Code of Ethics that applies to all employees, officers, and directors of the Company. Our Code of Ethics is publicly available on the investor relations page of our website at www.lamrc.com. To the extent required by law, any amendments to, or waivers from, any provision of the Code of Ethics will promptly be disclosed to the public. To the extent permitted by such legal requirements, we intend to make such public disclosure by posting the relevant material on our website in accordance with SEC rules.

Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference to our Proxy Statement under the heading "Executive Compensation and Other Information."

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item is incorporated by reference to our Proxy Statement under the headings "Proposal No. 1 — Election of Directors," "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance Under Equity Compensation Plans."

Item 13. *Certain Relationships and Related Transactions*

The information required by this Item is incorporated by reference to our Proxy Statement under the heading "Certain Relationships and Related Transactions".

Item 14. *Principal Independent Registered Public Accounting Firm Fees and Services*

The information required by this Item is incorporated by reference to our Proxy Statement under the heading "Relationship with Independent Registered Public Accounting Firm."

PART IV

Item 15. ***Exhibits, Consolidated Financial Statement Schedules, and Reports on Form 8-K***

(a) 1. Index to Financial Statements

2. Index to Financial Statement Schedules

Schedules, other than those listed above, have been omitted since they are not applicable/not required, or the information is included elsewhere herein.

3. See (c) of this Item 15, which is incorporated herein by reference.

(b) Reports on Form 8-K
None

(c) The list of Exhibits is set forth on pages 71 to 75 of this Form 10-K and are incorporated herein by this reference.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 27, 2004	June 29, 2003
ASSETS		
Cash and cash equivalents	$ 163,403	$ 167,343
Short-term investments	266,069	340,070
Accounts receivable, less allowance for doubtful accounts of $3,865 in 2004 and $3,789 in 2003	245,508	107,602
Inventories	108,249	112,016
Prepaid expenses and other current assets	10,428	12,679
Deferred income taxes	102,731	133,066
Total current assets	896,388	872,776
Property and equipment, net	42,444	48,771
Restricted cash	112,468	118,468
Deferred income taxes	106,505	87,032
Other assets	40,821	71,228
Total assets	$1,198,626	$1,198,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	$ 93,394	$ 35,518
Accrued expenses and other current liabilities	172,343	131,144
Deferred profit	108,369	45,309
Current portion of long-term debt and other long-term liabilities	2,500	5,011
Total current liabilities	376,606	216,982
Long-term debt and other long-term liabilities less current portion	9,554	332,209
Total liabilities	386,160	549,191
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 — 134,988 shares at June 27, 2004 and 127,435 shares at June 29, 2003	135	127
Additional paid-in capital	628,076	560,273
Deferred stock-based compensation	(1,839)	(2,769)
Treasury stock, at cost, 1,385 shares at June 27, 2004 and 2,712 shares at June 29, 2003	(19,742)	(38,670)
Accumulated other comprehensive loss	(15,283)	(13,694)
Retained earnings	221,119	143,817
Total stockholders' equity	812,466	649,084
Total liabilities and stockholders' equity	$1,198,626	$1,198,275

See Notes to Consolidated Financial Statements.

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

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
Total revenue	$935,946	$755,234	$ 943,114
Cost of goods sold	506,548	452,369	632,319
Cost of goods sold — restructuring charges (recoveries)	(1,651)	(964)	5,926
Cost of goods sold — patent settlement	—	—	38,780
Total cost of goods sold	504,897	451,405	677,025
Gross margin	431,049	303,829	266,089
Research and development	170,479	160,493	179,217
Selling, general and administrative	146,063	132,820	161,860
Restructuring charges, net	8,327	15,901	44,850
Total operating expenses	324,869	309,214	385,927
Operating income (loss)	106,180	(5,385)	(119,838)
Other income (expense):			
Interest income	9,915	15,804	31,703
Interest expense	(4,634)	(6,096)	(26,185)
Loss on equity derivative contracts in Company stock (EITF 00-19)	—	(16,407)	(8,236)
Net gain on settlement of swap and early retirement of 4% Notes	4,505	—	—
Other, net	(5,316)	(3,561)	(5,439)
	4,470	(10,260)	(8,157)
Income (loss) before income taxes	110,650	(15,645)	(127,995)
Income tax expense (benefit)	27,662	(7,906)	(37,944)
Net income (loss)	$ 82,988	$ (7,739)	$ (90,051)
Net income (loss) per share:			
Basic	$ 0.63	$ (0.06)	$ (0.71)
Diluted	$ 0.59	$ (0.06)	$ (0.71)
Number of shares used in per share calculations:			
Basic	131,776	126,300	126,356
Diluted	144,928	126,300	126,356

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 82,988	$ (7,739)	$ (90,051)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss on equity derivative contracts in Company stock	—	16,407	8,236
Depreciation	23,418	30,490	49,541
Amortization	4,822	8,263	8,273
Deferred income taxes	10,862	(8,640)	(34,166)
Restructuring charges, net	6,676	14,937	50,776
Amortization of premiums on securities	3,966	6,214	6,524
Patent settlement	—	—	33,780
Asset impairment charge	3,025	—	9,500
Loss on disposal of long-lived assets	732	1,372	3,124
Amortization of deferred stock-based compensation	3,167	593	—
Net noncash gain on retirement of 4% Notes	(7,505)	—	—
Other, net	(251)	679	2,835
Changes in working capital accounts:			
Accounts receivable, net of allowance	(297,054)	(84,516)	44,468
Sales of accounts receivable	158,693	108,175	73,778
Inventories	5,136	63,454	96,511
Prepaid expenses and other assets	6,528	(2,852)	6,255
Trade accounts payable	57,847	(24,306)	5,237
Deferred profit	63,105	(18,390)	(187,435)
Accrued expenses and other liabilities	29,573	(34,899)	(65,389)
Tax benefit from employee stock options	1,421	—	—
Net cash provided by operating activities	157,149	69,242	21,797
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(24,026)	(12,264)	(10,619)
Purchases of available-for-sale securities	(463,476)	(671,068)	(2,734,748)
Sales and maturities of available-for-sale securities	530,406	1,026,558	2,669,349
Transfer of restricted cash upon settlement of swap	6,000	—	—
Purchase of investments for restricted cash, net	—	(47,485)	(10,500)
Other, net	(398)	617	(1,609)
Net cash provided by/(used for) investing activities	48,506	296,358	(88,127)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term debt and capital lease obligations	(300,012)	(361,407)	(8,693)
Proceeds from settlement of swap	10,870	—	—
Treasury stock purchases	—	(39,122)	(10,678)
Reissuances of treasury stock	13,242	12,499	16,292
Proceeds from issuance of common stock	64,152	14,683	19,383
Net cash provided by/(used for) financing activities	(211,748)	(373,347)	16,304
Effect of exchange rate changes on cash	2,153	2,659	798
Net decrease in cash and cash equivalents	(3,940)	(5,088)	(49,228)
Cash and cash equivalents at beginning of year	167,343	172,431	221,659
Cash and cash equivalents at end of year	$ 163,403	$ 167,343	$ 172,431
Supplemental disclosures:			
Cash payments for interest	$ 13,600	$ 20,036	$ 28,717
Cash payments for income taxes	$ 4,165	$ 5,674	$ 4,564

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	COMMON STOCK SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	DEFERRED STOCK-BASED COMPENSATION	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	RETAINED EARNINGS	TOTAL
Balance at June 24, 2001	124,917	$125	$498,066	$(21,904)	$ —	$(18,195)	$254,281	$712,373
Sale of common stock	2,491	3	22,682	—	—	—	—	22,685
Warrant issued	—	—	21,480	—	—	—	—	21,480
Purchase of treasury stock	(615)	(1)	—	(10,678)	—	—	—	(10,679)
Reissuance of treasury stock	1,185	1	—	23,482	—	—	(7,190)	16,293
Components of comprehensive loss:								
Net loss	—	—	—	—	—	—	(90,051)	(90,051)
Foreign currency translation adjustment	—	—	—	—	—	6,674	—	6,674
Unrealized loss on fair value of derivative financial instruments, net	—	—	—	—	—	(3,719)	—	(3,719)
Total comprehensive loss								(87,096)
Balance at June 30, 2002	127,978	128	542,228	(9,100)	—	(15,240)	157,040	675,056
Sale of common stock	1,696	2	14,683	—	—	—	—	14,685
Purchase of treasury stock	(3,497)	(4)	—	(47,553)	—	—	—	(47,557)
Reissuance of treasury stock	1,258	1	—	17,983	—	—	(5,484)	12,500
Deferred stock-based compensation	—	—	3,362	—	(3,362)	—	—	—
Amortization of deferred compensation	—	—	—	—	593	—	—	593
Components of comprehensive loss:								
Net loss	—	—	—	—	—	—	(7,739)	(7,739)
Foreign currency translation adjustment	—	—	—	—	—	1,305	—	1,305
Unrealized loss on fair value of derivative financial instruments, net	—	—	—	—	—	(925)	—	(925)
Unrealized gain on financial instruments, net	—	—	—	—	—	1,166	—	1,166
Total comprehensive loss								(6,193)
Balance at June 29, 2003	127,435	127	560,273	(38,670)	(2,769)	(13,694)	143,817	649,084
Sale of common stock	6,224	7	64,145	—	—	—	—	64,152
Income tax benefit from stock option transactions	—	—	1,421	—	—	—	—	1,421
Reissuance of treasury stock	1,329	1	—	18,928	—	—	(5,686)	13,243
Deferred stock-based compensation	—	—	2,237	—	(2,237)	—	—	—
Amortization of deferred compensation	—	—	—	—	3,167	—	—	3,167
Components of comprehensive income:								
Net income	—	—	—	—	—	—	82,988	82,988
Foreign currency translation adjustment	—	—	—	—	—	1,808	—	1,808
Unrealized loss on fair value of derivative financial instruments, net	—	—	—	—	—	(293)	—	(293)
Unrealized loss on financial instruments, net	—	—	—	—	—	(2,665)	—	(2,665)
Less: reclassification adjustment for gains included in earnings						(439)		(439)
Total comprehensive income								81,399
Balance at June 27, 2004	134,988	$135	$628,076	$(19,742)	$(1,839)	$(15,283)	$221,119	$812,466

See Notes to Consolidated Financial Statements.

Note 1: Company and Industry Information

Lam Research Corporation (Lam or the Company) is a major supplier of wafer fabrication equipment and services to the world's semiconductor industry. The Company's product offerings include single-wafer plasma etch systems that are used in a wide range of applications, clean products used to perform mechanical and chemical cleaning in a single-step process, and an array of services designed to optimize the utilization of these systems by its customers. The Company sells its products and services primarily to companies involved in the production of semiconductors in the United States, Europe, Japan, and Asia Pacific.

In the fourth quarter of fiscal 2004, the Company decided to cease further investment in chemical mechanical polishing (CMP) systems development. This decision was based on the conclusion that the product did not demonstrate sufficient advantages to garner the market share necessary for adequate returns on further investment.

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Over the past three business cycles, the severity of these fluctuations has increased, and today's leading indicators of changes in customer investment patterns may not be any more reliable than in prior years. Demand for our equipment can 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 the Company's ability to develop and market competitive products. Certain of the components and subassemblies included in the Company's products are obtained from a single supplier or a limited group of suppliers. The Company believes that alternative sources could be obtained and qualified to supply these products. Nevertheless, a prolonged inability to obtain certain components could have a severe near-term effect on the Company's operating results and could result in damage to customer relationships. For these and other reasons, our results of operations for the year ended June 27, 2004 may not necessarily be indicative of future operating results.

Note 2: Summary of Significant Accounting Policies

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles requires management to make 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. The Company based its estimates and assumptions on historical experience and on various other assumptions believed to be applicable, and evaluates them on an on-going basis to ensure they remain reasonable under current conditions. Actual results could differ significantly from those estimates.

Revenue Recognition: The Company recognizes all revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, collectibility is reasonably assured, and the Company has completed its system installation obligations, received customer acceptance or is otherwise released from its installation or customer acceptance obligations. In the event that terms of the sale provide for a lapsing customer acceptance period, the Company recognizes revenue upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. In circumstances where the practices of a customer do not provide for a written acceptance and in addition, the terms of sale do not include a lapsing acceptance provision, the Company recognizes 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 the Company receives customer acceptance or is otherwise released from its customer acceptance obligations. Consideration from multiple element arrangements is allocated among the separate units 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 the Company's 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, system upgrade kits, and remanufactured systems is generally recognized upon shipment. Revenue related to services is generally recognized upon completion of performance of the services requested by a customer order. Revenue for extended maintenance service contracts with a fixed payment amount and a term more than one month is recognized on a straight-line basis over the term of the contract.

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. The Company maintains a perpetual inventory system and continuously records the quantity on-hand and standard cost for each product, including purchased components, subassemblies and finished goods. The Company maintains 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, the Company assumes title transfers when it completes physical transfer of the products to the freight carrier unless other customer practices prevail.

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 activities, and overhead for internally manufactured products. Manufacturing labor and overhead costs are attributed to individual product standard costs at a level planned to absorb spending at average utilization volumes. All intercompany profits related to the sale and purchase of inventory between Lam's legal entities are eliminated from the Company's consolidated financial statements.

Management evaluates the need to record adjustments for impairment of inventory at least quarterly. The Company's 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 the Company's 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 the Company's projections, additional inventory write-downs may be required, and would be reflected in cost of sales in the period the revision is made.

Warranty: Typically, marketing and selling semiconductor capital equipment includes providing parts and service warranty to customers as part of the overall price of the system. The Company provides standard warranties for its 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. The Company records a provision for estimated warranty expenses to cost of sales for each system upon revenue recognition. The amount recorded is based on an analysis of historical activity, which uses factors such as type of system, customer, geographic region, and any known differences such as tool reliability improvements. All actual parts and labor costs incurred in subsequent periods are charged to those established reserves through the application of detailed project record keeping.

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

The Company does not maintain general or unspecified reserves; all warranty reserves are related to specific systems. Historically, including the most recent year ended June 27, 2004, all warranty obligations have been determined with reasonable estimates.

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

Employee Stock Purchase Plan and Employee Stock Option Plans: The Company accounts for its employee stock purchase plan (ESPP) and stock option plans under the provisions of Accounting Principles Board (APB) Opinion No. 25 "Accounting For Stock Issued to Employees" (APB 25) and Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25" (FIN 44) and makes pro forma footnote disclosures as required by Statement of Financial Accounting Standards No. 148, "Accounting For Stock-Based Compensation — Transition and Disclosure" (SFAS 148), which amends Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation" (SFAS 123). The Company's ESPP is a non-compensatory plan, and its stock option plans are accounted for using the intrinsic value method under the provisions of APB 25.

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

	Options			ESPP		
	June 27, 2004	June 29, 2003	June 30, 2002	June 27, 2004	June 29, 2003	June 30, 2002
Expected life (years)	3.3	2.4	3.8	0.60	0.63	0.42
Expected stock price volatility	74.1%	74.0%	71.0%	74.1%	74.0%	71.0%
Risk-free interest rate	2.3%	1.5%	4.1%	2.3%	1.5%	4.1%

For pro forma purposes, the estimated fair value of the Company's stock-based awards is amortized over the option's vesting period (for options) and the respective four, six, twelve, or sixteen-month purchase periods for stock purchases under the employee stock purchase plan. The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had accounted for its stock option and stock purchase plans under the fair value method of accounting under SFAS 123 and SFAS 148:

	Year Ended		
	June 27, 2004	June 29, 2003	June 30, 2002
	(in thousands, except per share data)		
Net income (loss) — as reported	$ 82,988	$ (7,739)	$ (90,051)
Add: compensation expense recorded under APB 25, net of tax	2,336	616	1,724
Deduct: SFAS 123 compensation expense, net of tax	(27,128)	(43,226)	(34,524)
Net income (loss) — pro forma	$ 58,196	$(50,349)	$(122,851)
Basic net income (loss) per share — as reported	$ 0.63	$ (0.06)	$ (0.71)
Basic net income (loss) per share — pro forma	0.44	(0.40)	(0.97)
Diluted net income (loss) per share — as reported	0.59	(0.06)	(0.71)
Diluted net income (loss) per share — pro forma	$ 0.42	$ (0.40)	$ (0.97)

Deferred 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. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Realization of the Company's net deferred tax assets is dependent on future taxable income. The Company believes 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 the Company determines that it would not be able to realize all or part of its net deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if the Company later determines that it is more likely than not that the deferred tax assets would be realized, the previously provided valuation allowance would be reversed. The Company's current valuation allowance of $67.8 million relates to the tax benefit from the exercise of employee stock options and foreign tax credits. When the stock option tax benefits are realized, the related deferred tax asset will reverse and a portion of the valuation allowance will also be reversed and credited to capital in excess of par value.

Fiscal Year: The Company follows a 52/53-week fiscal reporting calendar and its fiscal year ends on the last Sunday of June each year. The Company's most recent fiscal year ended on June 27, 2004 and included 52 weeks. The fiscal year ended on June 29, 2003 also included 52 weeks. The Company's next fiscal year, ending on June 26, 2005, will include 52 weeks.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents and Short-Term Investments: All investments purchased with an original maturity of three months or less are considered to be cash equivalents. All of the Company's short-term investments are classified as available-for-sale at the respective balance sheet dates. The Company accounts for its investment portfolio at fair value. The investments classified as available-for-sale are recorded at fair value based upon quoted market prices, and any material temporary difference between the cost and fair value of an investment is presented as a separate component of accumulated other comprehensive income (loss). The specific identification method is used to determine the realized gains and losses on investments.

Property and Equipment: Property and equipment is stated at cost. Equipment is depreciated by the straight-line method over the estimated useful lives of the assets, generally three to seven years. Leasehold improvements are amortized by the straight-line method over the shorter of the life of the related asset or the term of the underlying lease.

Restructuring Charges: In July 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF 94-3). The Company early-adopted SFAS 146 in the quarter ended December 29, 2002. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than when the exit or disposal plan is approved. Accordingly, restructuring accruals are recorded when management, with the proper level of authority, approves the specific actions under a plan, communicates the reduction activities and severance packages to the affected employees, and vacates the facilities, or otherwise terminates a contract in accordance with its terms, included in the plan. Accruals related to vacated facilities are calculated net of estimated sublease income, and leasehold improvements related to vacated facilities are written off as these items have no future economic benefit. Sublease income is estimated based on current market estimates. If the Company is unable to sublet the vacated properties on a timely basis, the Company adjusts the accrual accordingly.

Impairment of Long-Lived Assets: The Company routinely considers whether indicators of impairment of long-lived assets are present. If such indicators are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If the sum is less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, the Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which the Company depreciates over the remaining estimated useful life of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Investments in Derivative Financial Instruments Indexed to Lam Research Corporation Stock: In November 2000, the FASB's Emerging Issues Task Force (EITF) reached final consensus on EITF Issue No. 00-19, "Determination of Whether Share Settlement is Within the Control of the Issuer," for the purposes of applying EITF Issue No. 96-13, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (EITF 00-19). EITF Issue No. 96-13 addresses accounting for equity derivative contracts indexed to, and potentially settled in, a company's own stock (equity derivatives) by providing guidance for distinguishing between permanent equity, temporary equity and assets and liabilities.

The Company's equity derivatives included certain put and call options indexed to its own stock. Application of EITF 00-19 required these instruments to be recorded at their fair value at the end of each reporting period and the changes in fair value recorded as a gain or loss on the Company's statement of operations. These equity derivatives were collateralized by restricted cash and could not be settled in unregistered shares. They were classified as other short-term assets and were settled in the first quarter of fiscal 2003 (See Note 5).

Derivative Financial Instruments: The Company holds or has held derivative financial instruments to hedge a variety of risk exposures including interest rate risks associated with its long-term debt, foreign currency exchange rate fluctuations on the value of its cash flows from forecasted revenue denominated in Japanese Yen and foreign currency denominated assets. Derivatives that qualify for hedge accounting are discussed in detail in Note 4 to these consolidated financial statements.

The Company does not purchase derivatives for speculative or for trading purposes. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to the derivative instrument and the hedged item. These include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows will be measured.

When derivative instruments are designated and qualify as effective hedges of identified fair value exposures, the Company is able to offset changes in the fair value of the identified exposures by changes in the fair value of the hedging instruments. 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 forecasted transactions would occur, the Company may not be able to account for its investments in derivative instruments as hedges. If this were to occur in a future period, changes in the fair values of the Company's derivative instruments would be recognized in operations without the benefits of offsets or deferrals of changes in fair value arising from hedge accounting treatment.

To hedge foreign currency risks, the Company uses foreign currency exchange forward contracts, where possible and practical. These forward contracts are valued using standard valuation formulas with assumptions about future foreign currency exchange rates derived from existing exchange rates and interest rates observed in the market.

The Company considers its most current outlook in determining the level of foreign currency denominated intercompany revenues to hedge. The Company combines these forecasts with historical trends to establish the portion of its expected volume to be hedged. The revenues are hedged for exposures to fluctuations in foreign currency exchange rates. Should the level of revenues expected not occur, the Company's investments in derivatives used to hedge changes in foreign currency exchange rates may not qualify for hedge accounting.

The Company redeemed its convertible subordinated 4% notes (4% Notes) and settled its interest rate swap agreement (the swap) during the fourth quarter of fiscal year 2004. See Note 4 for additional information. The Company paid a variable interest rate and received a fixed interest rate as part of the swap, which was used to hedge interest rate risk in connection with the Company's 4% Notes. This instrument was valued using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments arising under the swap. The variable cash payments were based on an expectation of future interest rates derived from observed market interest rate curves. The values of these derivatives changed over time as cash receipts and payments were made and as market conditions changed.

The Company does not believe that it is or was exposed to more than a nominal amount of credit risk in its interest rate and foreign currency hedges, as counterparties are established and well-capitalized financial institutions. The Company's exposures are in liquid currencies (Japanese Yen), so there is minimal risk that appropriate derivatives to maintain its hedging program would not be available in the future.

Guarantees: The Company accounts for guarantees in accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34" (FIN 45). Accordingly, the Company evaluates its guarantees to determine whether (a) the guarantee is specifically excluded from the scope of FIN 45, (b) the guarantee is subject to FIN 45 disclosure requirements only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value. The Company has recorded a liability for certain guaranteed residual values related to specific facility lease agreements. The Company has evaluated its remaining guarantees and has concluded that they are either not within the scope of FIN 45 or do not require recognition in the financial statements. These guarantees generally include certain indemnifications to its lessors under operating lease agreements for environmental matters, potential overdraft protection obligations to financial institutions related to one of the Company's subsidiaries, recourse provisions related to sales of accounts receivable, indemnifications to the Company's customers for certain infringement of third-party intellectual property rights by its products and services, and the Company's warranty obligations under sales of its products. Please see Note 16 for additional information on the Company's guarantees.

Foreign Currency: Through fiscal year 2004, the functional currencies of the Company's European, Japanese and Asia Pacific subsidiaries are generally the individual subsidiaries' local currencies. The Company's subsidiaries primarily generate and expend cash in their local currency; billings and receipts for their labor and services are primarily denominated in the local currency (workforce is paid in local currency); their individual assets and liabilities are primarily denominated in the local foreign currency and do not materially impact the Company's cash flows and there is an active local sales market for the foreign subsidiaries' products and services. Accordingly, all balance sheet accounts of these local functional currency subsidiaries are translated at the fiscal period-end exchange rate, and income statement accounts are translated at an average rate for the period. The resulting translation adjustments are recorded as cumulative translation adjustments, and are a component of accumulated other comprehensive income (loss).

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

Note 3: Financial Instruments

Investments at June 27, 2004 and June 29, 2003 consist of the following:

	June 27, 2004				June 29, 2003		
	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE	COST	UNREALIZED GAINS	FAIR VALUE
			(in thousands)				
Available-for-sale:							
Institutional Money Market Funds	$ 57,739	$ —	$ —	$ 57,739	$119,805	$ —	$119,805
Amounts included in cash and cash equivalents	57,739	—	—	57,739	119,805	—	119,805
Auction Rate Notes and Preferred Stock	4,998	2	—	5,000	106,186	—	106,186
Municipal Bonds and Notes	104,324	193	(732)	103,785	83,773	603	84,376
Treasury and Agency Notes	83,515	98	(859)	82,754	54,344	364	54,708
Bank and Corporate Notes	57,384	51	(639)	56,796	53,862	79	53,941
International — $US Denominated	17,786	7	(59)	17,734	40,739	120	40,859
Amounts included in short-term investments	268,007	351	(2,289)	266,069	338,904	1,166	340,070
Institutional Money Market Funds	112,468	—	—	112,468	118,468	—	118,468
Amounts included in restricted cash	112,468	—	—	112,468	118,468	—	118,468
Total Available-for-sale	$438,214	$351	$(2,289)	$436,276	$577,177	$1,166	$578,343

The Company accounts for its investment portfolio at fair value. Realized gains and (losses) from investments sold were approximately $0.2 million and ($0.3) million in fiscal 2004 and approximately $0.2 million and ($0.1) million in fiscal 2003. Realized gains and (losses) for investments sold are specifically identified. Management assesses the fair value of investments in debt securities that are not actively traded through consideration of interest rates and their impact on the present value of the cash flows to be received from the investments. The Company also considers whether changes in the credit ratings of the issuer could impact the assessment of fair value. The fair value of the Company's investments in auction rate preferred securities is based upon par value, which approximates fair value due to the nature of the instruments.

The Company's available-for-sale securities are invested in financial instruments with a minimum rating of A2 or A, as rated by Moody's or Standard & Poor's (S&P), respectively.

The amortized cost and fair value of investments in debt securities with contractual maturities is as follows:

	June 27, 2004		June 29, 2003	
	COST	ESTIMATED FAIR VALUE	COST	ESTIMATED FAIR VALUE
	(in thousands)			
Due in less than one year	$229,963	$229,773	$328,577	$328,922
Due one year through five years	203,253	201,503	142,414	143,235
Total investments in debt securities	$433,216	$431,276	$470,991	$472,157

Management has the ability and intent, if necessary, to liquidate any of its investments in order to meet the Company's liquidity needs in the next 12 months. Accordingly, those investments with contractual maturities greater than one year from the date of purchase have been classified as short-term on the accompanying consolidated balance sheets.

Concentrations of Credit Risk

The fair value of the Company's convertible subordinated notes and the Company's other long-term debt is estimated based on the current rates available for debt instruments with comparable terms and maturities. The fair value of the Company's foreign currency forward contracts is estimated based upon the Japanese Yen exchange rates at June 27, 2004 and June 29, 2003, respectively. See Note 5 for a discussion of the equity derivative contracts in the Company's stock and its fair value.

The Company had no cash flow hedges at June 27, 2004. At June 29, 2003, the notional amount of outstanding Japanese Yen forward contracts that are designated as cash flow hedges was $2.2 million. At June 27, 2004 and June 29, 2003, the notional amount of Japanese Yen forward contracts that are designated as balance sheet hedges was $48.1 million and $16.4 million, respectively.

The Company has an agreement to sell specific U.S. Dollar-denominated receivables. At June 27, 2004 and June 29, 2003, $60.0 million and $37.5 million of these receivables, respectively, remained uncollected, of which $6.0 million and $2.8 million at June 27, 2004 and June 29, 2003, respectively, were subject to recourse provisions.

Credit risk evaluations, including trade references, bank references and Dun & Bradstreet ratings are performed on all new customers, and subsequent to credit application approval, the Company monitors its customers' financial statements and payment performance. In general, the Company does not require collateral on sales.

Note 4: Derivative Financial Instruments and Hedging

During the quarter ended June 27, 2004, the Company repaid in full its 4% Notes, two years prior to maturity. The repayment of the 4% Notes resulted in a cash outlay of $303.0 million, which included a redemption premium of $3.0 million. Additionally, during the same quarter, the Company settled its swap, which resulted in an increase in cash of $10.9 million as well as a transfer of $6.0 million from restricted cash to cash balances. As a result of the swap settlement and repayment of the 4% Notes, the Company recorded a net gain of $4.5 million included in other income (expense), net. The $4.5 million consisted of a $10.9 million gain related to the swap, less the $3.0 million redemption premium and the $3.4 million write-off of unamortized offering expenses associated with the 4% Notes.

The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values. The Company has acquired and has held or holds derivative financial instruments to hedge a variety of risks and exposures including interest rate fluctuation risks associated with its long-term debt, foreign currency exchange rate fluctuations on the value of expected cash flows from forecasted revenue transactions denominated in Japanese

Yen and foreign currency denominated assets. Changes in the fair value of derivatives that are not designated or that do not qualify as hedges under SFAS 133 are recognized in earnings immediately. The Company does not use derivatives for trading or speculative purposes.

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

The corresponding net gains resulting from hedge ineffectiveness related to differences in changes in the fair value of the swap and changes in the fair value of the 4% Notes which are recorded in other income (expense), net were $0.1 million and $0.2 million for fiscal year 2004 and fiscal year 2003, respectively.

The Company's policy is to attempt to minimize short-term business exposure to foreign exchange risks using the most effective and efficient methods to eliminate or reduce such exposures. In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency rate fluctuations. To protect against the reduction in value of forecasted Japanese Yen-denominated cash flows resulting from sales in Japanese Yen, the Company will, at times, institute foreign currency cash flow hedging programs. The Company has previously entered into foreign currency forward exchange contracts that generally expired within 12 months, and no later than 24 months. These foreign currency forward exchange contracts were designated as cash flow hedges and carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in earnings in the same period the hedged revenue was recognized.

The Company recognized a net gain of $0.3 million and a net loss of $0.1 million for fiscal year 2004 and fiscal year 2003, respectively, for cash flow hedges that had been discontinued, because the original forecasted transactions did not or were not expected to occur. The gains and losses were recorded in other income (expense) in the consolidated statements of operations.

The Company also enters into foreign currency forward contracts to hedge the gains and losses generated by the remeasurement of Japanese Yen-denominated intercompany and trade receivables. Under SFAS 133, these forward contracts are not designated hedges. Therefore, the change in fair value of these derivatives is recorded into earnings as a component of other income (expense) and is planned to offset the change in fair value of the foreign currency denominated intercompany and trade receivables.

Note 5: Equity Derivative Contracts in Company Stock

On August 23, 2002, the Company settled its outstanding equity derivative contracts by purchasing approximately 3.5 million shares of Lam common stock at an average price of $11.19 per share for a total cash payment of $39.1 million. The settlement generated a contract life to date gain of $8.4 million ($2.41 per share) and the Company recognized an increase in treasury stock of $47.6 million as a result of this transaction. Based on the $13.60 market price of the Company's common stock at the contract settlement date (August 23, 2002), the fair value of the equity derivative contracts declined by $16.4 million to $8.4 million, from their June 30, 2002 fair value of $24.8 million. This $16.4 million reduction in the equity derivative contracts' fair value was recorded as a non-taxable loss in other expense in the June 29, 2003 consolidated statements of operations.

The Company's equity derivatives included certain put and call options indexed to its own stock that were acquired in June 1999. Application of EITF 00-19, "Determination of Whether Share Settlement is Within the Control of the Issuer," for the purposes of applying EITF Issue No. 96-13, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," required these previously purchased instruments to be recorded at their fair value at the end of each reporting period, commencing in June 2001, with the change in fair value recorded as a gain or loss in the Company's statement of operations. The Company's equity derivatives were collateralized by restricted cash of $9.1 million and could not be settled in unregistered shares. They were classified as other short-term assets ($24.8 million), at the end of fiscal 2002.

Note 6: Inventories

Inventories consist of the following:

	June 27, 2004	June 29, 2003
	(in thousands)	
Raw materials	$ 45,070	$ 67,259
Work-in-process	41,353	27,034
Finished goods	21,826	17,723
	$108,249	$112,016

Note 7: Property & Equipment

Property and equipment consists of the following:

	June 27, 2004	June 29, 2003
	(in thousands)	
Manufacturing and office equipment	$ 98,046	$ 114,609
Leasehold improvements	41,256	57,497
Furniture and fixtures	3,204	5,031
Computer equipment and software	59,062	67,624
	201,568	244,761
Less: accumulated depreciation and amortization	(159,124)	(195,990)
	$ 42,444	$ 48,771

Note 8: Accrued Expenses and Other Liabilities

The significant components of accrued expenses and other liabilities consist of the following:

	June 27, 2004	June 29, 2003
	(in thousands)	
Accrued compensation	$ 76,896	$ 55,610
Warranty reserves	28,401	16,985
Income and other taxes payable	33,972	23,796
Restructuring charges	5,093	9,840
Other	27,981	24,913
	$172,343	$131,144

Note 9: Long-Term Debt and Other Long-Term Liabilities

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

	June 27, 2004	June 29, 2003
	(in thousands)	
4% Notes, interest payable semi-annually, principal due June 2006	$ —	$319,322
Restructuring, long-term portion	8,761	9,396
Patent settlement obligation	2,500	7,500
Other	793	1,002
	12,054	337,220
Less current portion	(2,500)	(5,011)
	$ 9,554	$332,209

During the quarter ended June 27, 2004, the Company repaid in full its 4% Notes, two years prior to maturity. The repayment of the 4% Notes resulted in a cash outlay of $303.0 million, which included a redemption premium of $3.0 million. Additionally, during the same quarter, the Company settled its swap which had been used to minimize the impact of interest rate exposure associated with its 4% Notes. This settlement resulted in an increase in cash of $10.9 million and, in addition, a transfer of $6 million from restricted cash to cash balances. As a result of swap settlement and repayment of the 4% Notes, the Company recorded a net gain of $4.5 million included in other income (expense), net. The $4.5 million consisted of a $10.9 million gain related to the swap less the $3.0 million redemption premium and write-off of $3.4 million of unamortized offering expenses associated with the 4% Notes.

The $8.8 million long-term restructuring reserve is primarily related to lease payments on vacated buildings and includes payments extending out to various dates beyond the next twelve months, which the Company expects to utilize in total by the end of fiscal 2010.

The $2.5 million patent settlement obligation is expected to be paid in full by December 2004.

The remaining balance of $0.8 million is expected to be utilized in total by June 2007.

Note 10: Stockholders' Equity

During fiscal 2003, the Company settled its outstanding equity derivative contracts by purchasing approximately 3.5 million shares of the Company's common stock for a total cash payment of $39.1 million, which represented a discount from the market price of the stock of approximately $2.41 per share, resulting in a life to date gain of $8.4 million. The Company recognized an increase in treasury stock of $47.6 million as a result of this transaction. During fiscal 2002, the Company repurchased 600,000 shares of its common stock for $10.7 million. During fiscal 2001, the Company repurchased approximately 2.4 million shares of the Company's common stock for approximately $45.1 million.

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

During the quarter ended September 28, 2003, the Company added a second condition to the accelerated vesting provision contained in this stock option award. The second condition required the Company's fiscal quarter net income, based on U.S. generally accepted accounting principles, to exceed $2.5 million after deducting any incremental amortization expense that resulted from acceleration of these same options. The two conditions needed not to be met simultaneously nor in a specific order. Both conditions were met during the quarter ended September 28, 2003 and, as a result, all options under this arrangement were immediately vested in full. Accordingly, the Company recognized the remaining deferred stock-based compensation balance of $2.8 million as compensation expense within selling, general and administrative expenses in the Company's consolidated statement of operations for the fiscal year ended June 27, 2004.

As of June 27, 2004, the Company had $1.8 million remaining in deferred stock-based compensation. The majority of this balance relates to restricted stock units granted to certain of the Company's employees. The grant of these units has been accounted for in accordance with APB No. 25 and EITF 00-23, "Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25, Accounting for Stock Issued to Employees, and FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation." Accordingly, these units were valued using the intrinsic value as calculated by the market price at the date of grant. This resulted in a fixed non-cash compensation charge which is being recognized on a straight-line basis in earnings over the related service period.

Note 11: Net Income (Loss) Per Share

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

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
	(in thousands, except per share data)		
Numerator:			
Net income (loss)	$ 82,988	$ (7,739)	$ (90,051)
Add:			
Interest expense on 4% Notes, net of income taxes	3,179	—	—
Numerator for diluted net income (loss) per share	$ 86,167	$ (7,739)	$ (90,051)
Denominator:			
Basic average shares outstanding	131,776	126,300	126,356
Effect of potential dilutive securities:			
Employee stock plans and warrant	6,897	—	—
Assumed conversion of 4% Notes	6,255	—	—
Diluted average shares outstanding	144,928	126,300	126,356
Net income (loss) per share — Basic	$ 0.63	$ (0.06)	$ (0.71)
Net income (loss) per share — Diluted	$ 0.59	$ (0.06)	$ (0.71)

For purposes of computing diluted net income (loss) per share, weighted-average common shares do not include potential dilutive securities whose exercise prices exceed the average market value of the Company's common stock for the period. The following potential dilutive securities were excluded:

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
	(in thousands)		
Number of potential dilutive securities excluded	3,403	18,166	5,064

Additionally, the following potential dilutive securities were excluded for purposes of computing diluted net (loss) per share because the effect would have been antidilutive:

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
	(in thousands)		
Number of potential dilutive securities excluded — options	—	3,718	18,038
Number of potential dilutive securities excluded — convertible subordinated notes	—	6,677	6,677
	—	10,395	24,715

Note 12: Comprehensive Income (Loss)

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

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
	(in thousands)		
Net income (loss)	$82,988	$(7,739)	$(90,051)
Foreign currency translation adjustment	1,808	1,305	6,674
Unrealized loss on fair value of derivative financial instruments, net	(293)	(925)	(3,719)
Unrealized gain (loss) on financial instruments, net	(3,104)	1,166	—
Comprehensive income (loss)	$81,399	$(6,193)	$(87,096)

The balance of accumulated other comprehensive loss is as follows:

	June 27, 2004	June 29, 2003
	(in thousands)	
Accumulated foreign currency translation adjustment	$(13,345)	$(15,153)
Accumulated unrealized gain on derivative financial instruments	—	293
Accumulated unrealized gain (loss) on financial instruments	(1,938)	1,166
Accumulated other comprehensive loss	$(15,283)	$(13,694)

Note 13: Stock Option Plans and Stock Purchase Plan

The Company has adopted stock option plans that provide for the grant to key employees of options to purchase shares of the Company's Common Stock. In addition, the plans permit the grant of nonstatutory stock options to paid consultants and employees, and provide for the automatic grant of nonstatutory stock options to outside directors. The option price is determined by the Board of Directors or its designee, the plan administrator, but in no event will it be less than the fair market value of the Company's Common Stock on the date of grant. Options granted under the plans vest over a period determined by the Board of Directors or the plan administrator. Under the automatic grant program, each outside director receives an option immediately exercisable for 15,000 shares of the Company's Common Stock during December of each year during which the outside director serves, with the exercise price equal to the fair market value on the date of grant.

A summary of stock option plan transactions follows:

	AVAILABLE FOR GRANT	OUTSTANDING	OPTION PRICE	WEIGHTED AVERAGE
June 24, 2001	1,960,292	24,919,149	$ 1.75–53.00	$14.13
Additional amount authorized	9,000,000	—	—	—
Granted	(9,736,347)	9,736,347	16.00–29.87	21.81
Exercised	—	(2,453,796)	1.75–29.58	7.85
Canceled	2,579,527	(2,579,527)	3.33–53.00	19.48
Expired	(347,836)	—	—	—
June 30, 2002	3,455,636	29,622,173	$ 3.33–53.00	$16.68
Additional amount authorized	3,000,000	—	—	—
Granted	(4,661,372)	4,661,372	7.03–22.74	11.12
Exercised	—	(1,719,354)	3.33–18.58	8.63
Canceled	1,862,396	(1,862,396)	6.33–50.46	21.61
Expired	(59,568)	—	—	—
June 29, 2003	3,597,092	30,701,795	$ 3.33–53.00	$16.02
Additional amount authorized	—	—	—	—
Granted	(665,835)	665,835	18.21–35.40	25.92
Exercised	—	(6,146,637)	3.33–29.66	10.32
Canceled	1,602,440	(1,602,440)	5.97–50.46	21.88
Expired	(26,645)	—	—	—
June 27, 2004	4,507,052	23,618,553	$ 3.33–53.00	$17.40

At June 27, 2004, 28,125,605 shares of Lam Common Stock were reserved for future issuance under the various stock option plans.

Outstanding and exercisable options presented by price range at June 27, 2004 are as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED-AVERAGE REMAINING LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$ 3.33–6.33	3,249,334	4.85	$ 5.66	3,249,334	$ 5.66
6.38–8.69	2,687,027	3.79	7.43	2,405,077	7.29
8.95–12.74	2,480,576	5.04	10.32	1,759,919	10.34
12.90–21.58	4,368,774	4.60	17.57	2,634,647	17.74
21.63–22.05	5,711,801	4.75	22.04	874,910	22.01
22.07–26.44	3,453,630	6.00	25.37	2,318,866	25.85
26.57–53.00	1,667,411	5.82	33.92	1,217,732	34.33
$ 3.33–53.00	23,618,553	4.92	$17.40	14,460,485	$15.34

The 1997 Stock Incentive Plan and the 1999 Stock Option Plan provide for the grant of non-qualified stock option awards to eligible employees, consultants and advisors, and non-employee directors of the Company and its subsidiaries. Initially, 9.0 million shares were reserved for issuance. The Board of Directors approved an additional 3.0 million shares, 9.0 million shares, and 500,000 shares, in fiscal years 2003, 2002, and 2001 respectively.

The 1999 Employee Stock Purchase Plan (the 1999 ESPP) allows employees to designate a portion of their base compensation to be used to purchase the Company's Common Stock at a purchase price per share of the lower of 85% of the fair market value of the Company's Common Stock on the first or last day of the applicable offering period. Typically, each offering period lasts 12 months and comprises three interim purchase dates. During fiscal 2003, the Board approved an extension of the offering period to 16 months. The 1999 ESPP, approved by the

Company's stockholders at the Annual Meeting of Stockholders on November 5, 1998, replaced the existing 1984 Employee Stock Purchase Plan (the 1984 ESPP). At June 29, 2003 the Company had 9.0 million shares of Lam Common Stock reserved for issuance under the 1999 ESPP: 3.0 million shares may be issued at any time and additional shares (previously 6.0 million total additional shares) may be issued for each share of the Company's Common Stock which the Company redeems in public-market at private purchases and designated for this purpose. In fiscal year 2004, the Company's stockholders approved an amendment to the 1999 ESPP to (i) each year automatically increase the number of shares available for issuance under the Plan by a specific amount on a one-for-one basis with shares of Common Stock that the Company will redeem in public market and private purchases for such purpose and (ii) to authorize the Plan Administrator (the Compensation Committee of the Board) to set a limit on the number of shares a Plan participant can purchase on any single Plan exercise date. The automatic annual increase provides that the number of shares in the Plan reserve available for issuance shall be increased on the first business day of each calendar year commencing with 2004, on a one-for-one basis with each share of Common Stock that the Company redeems, in public-market or private purchases, and designates for this purpose, by a number of shares equal to the lesser of (i) 2,000,000, (ii) one and one-half percent (1.5%) of the number of shares of all classes of common stock of the Company outstanding on the first business day of such calendar year, or (iii) a lesser number determined by the Plan Administrator. During fiscal year 2004, the number of shares of Lam Common Stock reserved for issuance under the 1999 ESPP increased by 2.0 million shares to 11.0 million shares, subject to repurchase of an equal number of shares in public market or private purchases.

During fiscal 2004, 1,420,775 shares of the Company's Common Stock were sold to employees under the 1999 ESPP. A total of 15,330,337 shares of the Company's Common Stock were issued under the 1999 and 1984 ESPP Plans through June 27, 2004, at prices ranging from $0.09 to $31.84 per share. At June 27, 2004, 735,325 shares are available for purchase under all employee stock purchase plans. Pursuant to the automatic increase in shares available for issuance under the 1999 ESPP discussed above, an additional 2.0 million shares are available for purchase subject to repurchase of an equal number of shares in public market or private purchases.

Note 14: Profit Sharing and Benefit Plans

Profit sharing is awarded to employees based upon performance against certain corporate financial and operating goals. Distributions to employees by the Company are made semi-annually based upon a percentage of base salary, provided that a threshold level of the Company's financial and performance goals are met. In addition to profit sharing the Company has other bonus plans based on achievement of profitability and other specific performance criteria. Charges to expense under these plans were $22.7 million, $8.8 million, and $2.7 million during fiscal years 2004, 2003, and 2002, respectively.

The Company maintains a 401(k)-retirement savings plan for its full-time employees in North America. Each participant in the plan may elect to contribute from 2% to 20% in fiscal 2004 and fiscal 2003 and from 2% to 15% in fiscal 2002 of his or her annual salary to the plan, subject to statutory limitations. The Company makes matching employee contributions in cash to the plan at the rate of 50% of the first 6% of salary contributed. Employees participating in the 401(k)-retirement savings plan are 100% vested in the Company matching contributions and investments are directed by participants. The Company made matching contributions of approximately $3.0 million, $3.1 million, and $4.0 million in fiscal 2004, 2003, and 2002, respectively.

Note 15: Commitments

Off-Balance Sheet Arrangements and Contractual Obligations

The Company has certain obligations, some of which are recorded on its balance sheet and some of which are not, to make future payments under various contracts. Obligations are recorded on the Company's balance sheet in accordance with U.S. generally accepted accounting principles. Such obligations are included in the Company's consolidated balance sheet and certain components, other long-term liabilities and restructuring liabilities, are discussed below. In addition, the Company's off-balance sheet arrangements, consisting of operating leases and purchase obligations in the tables below, include contractual relationships for which the Company has an obligation under certain contracts.

Other Long-Term Liabilities

During the second quarter of fiscal 2002 the Company signed a final settlement agreement with Varian Semiconductor Equipment Associates, Inc. (Varian) in connection with the patent infringement litigation filed by Varian in October 1993. Under the terms of the settlement agreement, Varian granted the Company a non-exclusive license to the patents involved in the litigation. The Company agreed to pay Varian $20.0 million in cash, $5.0 million in December 2001 and the remainder to be paid in equal quarterly installments of $1.25 million over a three-year period. As of June 27, 2004, a total amount of $17.5 million has been paid to Varian and the total obligation remaining is $2.5 million through December 2004.

Restructuring Liabilities

The Company's total restructuring reserves as of June 27, 2004 were $13.9 million. The $13.9 million consists of $0.6 million of severance and benefits-related costs and $13.3 million primarily related to lease payments on vacated buildings. The severance and benefits-related costs are expected to be paid over the next twelve months. The facilities-related payments extend out to various dates and the balance is expected to be paid in full by fiscal 2010. The Company's restructuring obligations are included in the table below. Please see the related discussion in Note 19 of Notes to Consolidated Financial Statements.

The Company has subleased some of its vacated buildings, all of which are included in the Company's restructuring reserves, and currently is entitled to receive sublease payments of approximately $2.0 million, $1.6 million, and $0.8 million for the fiscal years 2005, 2006, and 2007, respectively.

For fiscal years ended June 27, 2004, June 29, 2003, and June 30, 2002, the Company received sublease payments totaling $1.2 million, $2.8 million, and $3.9 million, respectively, on its sublease facilities.

The Company's restructuring reserves consisted of the following as of June 27, 2004:

	(in thousands)
Payments due by period:	
Less than 1 year	$ 5,093
1–3 years	6,986
4–5 years	1,748
Over 5 years	27
Total	$13,854

Operating Leases

The Company leases most of its administrative, research and development (R&D) and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases, which expire at various dates through 2021. All of the Company's facility leases for buildings located at its Fremont, California headquarters and certain other facility leases provide the Company an option to extend the leases for additional periods. Additionally, certain of the Company's facility leases provide for periodic rent increases based on the general rate of inflation.

Future minimum lease payments under operating leases agreements as of June 27, 2004 are as follows:

	(in thousands)
Payments due by period:	
Less than 1 year	$ 13,894
1–3 years	13,718
4–5 years	102,034
Over 5 years	388
Total	$130,034

Total rent expense amounted to approximately $8.5 million, $14.9 million, and $19.7 million, for fiscal years 2004, 2003, and 2002, respectively.

In March and June of 2003, the Company transferred certain lease agreements relating to various properties at its Fremont, California campus to a new lessor. These agreements require the Company to guarantee residual values of the leased properties to the lessor at the end of the lease terms in fiscal 2008 (in the case that the leases are not renewed, the Company does not exercise the purchase options and the lessor sells the properties and the sale price is less than the lessor's costs) of up to $98.7 million ($48.4 million and $50.3 million, respectively), which are reflected in the table above. The terms of the guarantees are equal to the remaining terms of the related lease agreements. Under the accounting provisions of FIN 45, the Company recognized a liability of approximately $1.0 million ($0.5 million in March 2003 and $0.5 million in June 2003) for the related residual value guarantees under the leases. The value of these guarantees was determined by computing the estimated present value of the respective probability-weighted cash flows that might be expended under the guarantees over the respective leases' term, discounted using the Company's risk adjusted borrowing rate of approximately 2%. The values of these respective guarantees have been recorded as prepaid rent, with the offset recorded as a liability, and the amounts are being amortized to income (for the liability) and to expense (for the prepaid rent) on a ratable basis over the five-year period of the leases. Additionally, as part of the lease agreements, the Company maintains cash collateral of approximately $112.5 million in separate specified interest bearing accounts which is recorded as restricted cash on the Company's 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 FIN 46, and is therefore not consolidated by the Company.

Purchase Obligations

Future payments under purchase obligations as of June 27, 2004 are as follows:

	(in thousands)
Payments due by period:	
Less than 1 year	$108,142
1–3 years	54,750
4–5 years	41,498
Over 5 years	1,825
Total	$206,215

Purchase obligations consist of material contractual purchase obligations either on an annual basis or over multi-year periods related to the Company's outsourcing activities or other material commitments, including vendor-consigned inventories. The Company continues to enter into new agreements and maintain existing agreements to outsource certain elements, including elements of its manufacturing, warehousing, logistics, facilities maintenance, certain information technology functions, and certain transactional general and administrative functions. The table presented above contains the Company's minimum obligations at June 27, 2004 under these arrangements and others. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to minimum spending commitments, certain of these agreements provide for potential cancellation charges.

Consignment inventories, which are owned by vendors but located in the Company's discrete storage locations and warehouses, are not reported as Lam inventory until title is transferred to the Company or its purchase obligation is determined. At June 27, 2004, vendor owned inventories held at the Company's locations and not reported as Lam inventory were approximately $14.6 million.

Note 16: Guarantees

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

In March and June of 2003, the Company transferred certain lease agreements relating to various properties at its Fremont, California campus to a new lessor. These agreements require the Company to guarantee residual values of the leased properties to the lessor at the end of the lease terms in fiscal 2008. Please see additional discussion in Note 15.

The Company has issued certain indemnifications to its lessors under some of its operating lease agreements, such as, indemnification for various environmental matters. The Company has entered into certain insurance contracts to minimize its exposure related to such indemnifications. As of June 27, 2004, the Company has not recorded any liability on its financial statements in connection with these indemnifications, as the Company does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

The Company has agreements with two financial institutions that guarantee payment of its Japanese subsidiary's overdraft protection obligation. The maximum potential amount of future payments the Company could be required to make under these agreements at June 27, 2004, is approximately $5.6 million. As of June 27, 2004, the Company's Japanese subsidiary did not owe any amounts under this agreement. The Company has not recorded any liability in connection with these guarantees, as the Company does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

The Company has an agreement with a financial institution to sell to the institution certain U.S. Dollar-denominated receivables generated from the sale of its systems, subject to recourse provisions. The Company insures these sold receivables for approximately 90% of their value and guarantees payment of the remaining uninsured receivable value in the event that the payment obligation is not satisfied. Based on historical payment patterns, the Company has experienced negligible default on payment obligations and therefore, believes the risk of loss from default is minimal. The terms of these guarantees are from 90 days past the due date of the receivable, until collected. At June 27, 2004 the maximum potential amount of future payments the Company could be required to make under this agreement is approximately $6.0 million. As of June 27, 2004, the Company has not recorded any liability in connection with these guarantees, as the Company does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

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

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

Changes in the Company's product warranty reserves during year ended June 27, 2004, were as follows:

	(in thousands)
Balance at June 29, 2003	$ 16,985
Warranties issued during the period	28,391
Settlements made during the period	(15,506)
Change in liability for pre-existing warranties during the period, including expirations	(1,469)
Balance at June 27, 2004	$ 28,401

Note 17: Income Taxes

Significant components of the provision (benefit) for income taxes attributable to income before taxes are as follows:

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
		(in thousands)	
Federal:			
Current	$ 1,396	$ 1,016	$ (1,527)
Deferred	10,730	(5,856)	(45,074)
	12,126	(4,840)	(46,601)
State:			
Current	260	(3,214)	175
Deferred	5,468	(2,581)	4,109
	5,728	(5,795)	4,284
Foreign:			
Current	9,808	2,932	(2,742)
Deferred	—	(203)	7,115
	9,808	2,729	4,373
	$27,662	$(7,906)	$(37,944)

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets are as follows:

	June 27, 2004	June 29, 2003
	(in thousands)	
Deferred tax assets:		
Tax benefit carryforwards	$195,676	$164,286
Accounting reserves and accruals deductible in different periods	35,605	59,264
Inventory valuation differences	38,629	37,836
Capitalized R&D expenses	14,974	17,808
Unrealized loss	5,265	—
Varian settlement — stock warrants	8,752	8,270
Other	4,419	—
Gross deferred tax assets	303,320	287,464
Deferred tax liabilities:		
Temporary differences for capital assets	(13,047)	(8,326)
Unrealized gain	—	(2,856)
State cumulative temporary differences	(13,256)	(14,786)
Other	—	(4,743)
Gross deferred tax liabilities	(26,303)	(30,711)
Valuation allowance for deferred tax assets	(67,781)	(36,655)
Net deferred tax assets	$209,236	$220,098

Realization of the Company's net deferred tax assets is based upon the weight of available evidence, including such factors as the recent earnings history and expected future taxable income. The Company believes 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.

Approximately $66.4 million and $23.9 million of the valuation allowance for deferred tax assets, for fiscal 2004 and 2003, respectively, are attributable to stock option deductions, the benefit of which will be credited to equity when realized. Approximately, $1.4 million of stock option deductions were realized for the year ended June 27, 2004. The change (increase/(decrease)) in valuation allowance year over year was $31.1 million, ($15.6) million and $21.0 million for fiscal 2004, 2003, and 2002, respectively.

At June 27, 2004, the Company has federal tax loss carryforwards of approximately $319.5 million, which will expire in varying amounts between 2019 and 2024. The Company also has federal and state tax credit carryforwards of approximately $79.1 million, of which approximately $69.1 million of credits, will expire in varying amounts between 2005 and 2024. The remaining balance of $9.9 million of credit carryforwards may be carried forward indefinitely. A valuation allowance of approximately $1.3 million in 2004 and $12.8 million in 2003 is attributable to the portion of the deferred tax assets related to the tax credit carryforwards.

A reconciliation of income tax provision (benefit) provided at the federal statutory rate (35% in 2004, 2003, and 2002) to actual income tax provision (benefit) is as follows:

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
		(in thousands)	
Income tax provision (benefit) computed at federal statutory rate	$ 38,688	$ (5,476)	$(44,798)
Tax carryforwards (benefited)/unbenefited	—	—	9,184
Change in valuation allowance — foreign tax credits	(12,689)	—	—
Tax exempt interest	(783)	(805)	(1,447)
Tax credits	(6,604)	(1,700)	(7,000)
State income tax provision (benefit), net of federal tax provision	261	(3,767)	2,785
Equity derivatives indexed to Company stock	—	5,742	2,883
Foreign income taxed at different rates	9,347	23,080	—
IRS audit settlement	—	(24,892)	—
Other	(558)	(88)	449
	$ 27,662	$ (7,906)	$(37,944)

Income before income taxes from foreign operations for fiscal years 2004, 2003, and 2002 was $1.7 million, $(69.5) million and $(3.7) million, respectively. In addition, the Company received royalty and other income from foreign sources of $2.5 million, $4.9 million and $0.3 million, in fiscal years 2004, 2003, and 2002, respectively, which is subject to foreign tax withholding.

In April 2003, the Internal Revenue Service (IRS) closed its examination of the Company's tax returns for fiscal years up to and including the fiscal year ended June 30, 1998. Resolution was reached on a number of issues including adjustments related to research and development tax credits, resulting in a reported approximate $24.9 million tax benefit recorded in fiscal 2003. In addition, tax expense of approximately $17.0 million associated with implementing strategies to, in the longer-term, limit the Company's tax liability on the sale of the Company's products worldwide, was recorded in the fourth quarter of fiscal 2003. These tax strategies are structured to align the asset ownership and functions of the Company's various legal entities around the world with the Company's expectations of the level, timing, and sources of future revenues and profits.

Note 18: Segment, Geographic Information and Major Customers

The Company operates in one business segment: manufacturing and servicing of front-end wafer processing semiconductor manufacturing equipment. All products and services are marketed within the geographic regions in which the Company operates. The Company's material operating units qualify for aggregation under Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," due to their identical customer base and similarities in economic characteristics, nature of products and services, and processes for procurement, manufacturing and distribution.

The Company operates in four geographic regions: the United States, Europe, Asia Pacific, and Japan. For geographical reporting, revenues are attributed to the geographic location in which the customers' facilities are located while long-lived assets are attributed to the geographic locations in which they are located.

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
		(in thousands)	
Net sales:			
United States	$164,528	$207,938	$267,710
Europe	177,380	148,284	201,258
Asia Pacific	489,744	334,375	329,065
Japan	104,294	64,637	145,081
Total net sales	$935,946	$755,234	$943,114

	YEAR ENDED		
	June 27, 2004	June 29, 2003	June 30, 2002
		(in thousands)	
Long-lived assets:			
United States	$68,398	$101,170	$104,418
Europe	10,180	9,243	2,259
Asia Pacific	2,176	2,855	4,010
Japan	318	4,111	5,569
Total long-lived assets	$81,072	$117,379	$116,256

In fiscal year 2004, revenues, on a standalone basis, from ST Microelectronics accounted for approximately 15% of total revenues, and, in fiscal year 2003, revenues from Samsung Electronics Company, Ltd., accounted for approximately 15% of total revenues. No individual customer accounted for more than 10% of the Company's total revenue in fiscal 2002.

Note 19: Restructuring

The Company has developed plans and incurred restructuring charges to respond to the high level of volatility and, at times, depressed levels of capital investment by the semiconductor industry. The frequency of the Company's restructuring plans has been driven by the unpredictable and substantial changes in the semiconductor industry as a whole and the market for semiconductor processing equipment in particular. These dynamic changes in the semiconductor industry and the Company's business have required multiple integrated responses, including those activities within the Company's restructuring plans, based on the best information and industry-expert forecasts available at that point in time. Although management makes every attempt to consolidate all known restructuring activities into one plan, the extreme nature of Lam's industry's business cycles and the rapidly changing forecasting environment places practical limitations on achieving this objective. The implementation of restructuring activities and recognition of their impact in the Company's financial statements does not preclude similar but unrelated actions from being necessary in future periods.

The Company systematically reviews its revenue outlook and forecasts and assesses their impact on required employment levels, facilities utilization, and outsourcing activities. Based on these evaluations, the Company's senior management committed to cost reduction and exit activities in the quarters ended March 28, 2004 (the March 2004 Plan), December 28, 2003 (the December 2003 Plan), September 28, 2003 (the September 2003 Plan), June 29, 2003 (the June 2003 Plan), March 30, 2003 (the March 2003 Plan), December 29, 2002 (the December 2002 Plan), December 30, 2001 (the December 2001 Plan), and September 23, 2001 (the September 2001 Plan).

Prior to the end of each quarter noted above, the Company initiated the announced restructuring activities and management with the proper level of authority approved specific actions under the respective Plan. Severance packages to potentially impacted employees were communicated in enough detail such that the employees could determine their type and amount of benefit. The termination of the affected employees occurred as soon as practical after the restructuring plans were announced. The amount of remaining future lease payments for facilities the Company ceased to use and included in the restructuring charges is based on management's estimates using known prevailing real estate market conditions at that time based, in part, on the opinions of independent real estate experts. Leasehold improvements relating to the vacated buildings were written off, as these items will have no future economic benefit to the Company and have been abandoned.

The Company distinguishes regular operating cost management activities from restructuring activities. Accounting for restructuring activities requires an evaluation of formally committed and approved plans. Restructuring activities have comparatively greater strategic significance and materiality and may involve exit activities, whereas regular cost containment activities are more tactical in nature and are rarely characterized by formal and integrated action plans or exiting a particular product, facility, or service.

As of June 27, 2004, the overall restructuring reserve balance consisted of the following:

	SEVERANCE AND BENEFITS	FACILITIES	TOTAL
		(in thousands)	
Fiscal 2004 restructurings	$ 30	$ 2,077	$ 2,107
Fiscal 2003 restructurings	183	6,451	6,634
Fiscal 2002 restructurings	389	3,496	3,885
Pre-fiscal 2002 restructurings	—	1,228	1,228
Balance at June 27, 2004	$602	$13,252	$13,854

The severance and benefits-related costs are anticipated to be utilized by the end of fiscal year 2005. The facilities balance consists primarily of lease payments on vacated buildings and is expected to be utilized by the end of fiscal year 2010.

Fiscal 2004 Restructuring Activities

The Company recorded net restructuring charges during fiscal year 2004 of approximately $6.7 million, consisting of severance and benefits for involuntarily terminated employees of $1.2 million, charges for the present value of remaining lease payments on vacated facilities of $2.8 million, and the write-off of related leasehold improvements of $1.6 million. The Company also recorded a charge of approximately $1.0 million due to the cancellation of a lease agreement related to one of its facilities in Japan and $2.1 million for the write-off of related leasehold improvements. Furthermore, the Company recognized $1.9 million of additional facilities-related expenses due to changes in estimates of restructuring plans initiated prior to fiscal 2004. Charges during the year were partially offset by the recovery of $1.5 million, net, of previously accrued expenses related to the remaining lease payments on vacated facilities in Japan. Additional offsetting items include recovery of $0.7 million due to lower than previously estimated employee severance and benefits costs and $1.7 million of recovered inventory from unanticipated sales to the Company's installed base of certain portions of inventory previously written off as part of its September 2001 restructuring. The inventory recovery was recorded as a credit in cost of goods sold.

March 2004 Plan

The Company recorded a restructuring charge during the quarter ended March, 2004 of approximately $3.0 million, consisting of charges for the cancellation of a lease agreement related to one of its facilities in Japan, deemed to be no longer useful to the Company's operations, of $1.0 million, and the write-off of related leasehold improvements of $2.0 million.

Below is a table summarizing activity relating to the March 2004 Plan:

	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)	
March 2004 provision	$ 950	$ 2,088	$ 3,038
Cash payments	(950)	—	(950)
Non-cash charges	—	(2,088)	(2,088)
Balance at June 27, 2004	$ —	$ —	$ —

December 2003 Plan

The Company's December 2003 Plan activities included reducing its workforce by less than 20 employees, primarily in North America and by vacating a facility located in North America deemed to be no longer useful to its operations. The employees included in the Plan were from a range of functions and at different levels of the organization. The Company recorded a restructuring charge during the quarter ended December 28, 2003 of approximately $4.2 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements.

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
December 2003 provision	$ 350	$2,305	$ 1,514	$ 4,169
Reversal of restructuring charges	—	(18)	—	(18)
Cash payments	(350)	(244)	—	(594)
Non-cash charges	—	—	(1,514)	(1,514)
Balance at June 27, 2004	$ —	$2,043	$ —	$ 2,043

September 2003 Plan

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

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
September 2003 provision	$ 713	$ 394	$ 123	$ 1,230
Additional restructuring charges	48	—	—	48
Reversal of restructuring charges	(69)	(7)	—	(76)
Cash payments	(662)	(353)	—	(1,015)
Non-cash charges	—	—	(123)	(123)
Balance at June 27, 2004	$ 30	$ 34	$ —	$ 64

Fiscal 2003 Restructuring Activities

June 2003 Plan

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

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
June 2003 provision	$ 783	$6,656	$ 210	$ 7,649
Cash payments	(366)	(388)	—	(754)
Non-cash charges	—	—	(210)	(210)
Balance at June 29, 2003	417	6,268	—	6,685
Cash payments	(374)	(847)	—	(1,221)
Reversal of restructuring charges	(37)	(2)	—	(39)
Additional restructuring charges	—	84	—	84
Balance at June 27, 2004	$ 6	$5,503	$ —	$ 5,509

March 2003 Plan

The Company's March 2003 Plan activities included reducing its workforce in North America and Europe by approximately 50 people and by vacating selected sales and administrative facilities located in North America deemed to be no longer required for its operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with the majority of the reductions in North America. The Company recorded a restructuring charge during the quarter ended March 30, 2003, of approximately $4.7 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements. The Company recovered $0.3 million during fiscal year ended June 27, 2004 due to a change in estimates related to its facilities. Additionally, during fiscal 2004, $0.3 million were recovered due to lower than previously estimated employee severance and benefits costs.

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
March 2003 provision	$1,658	$2,913	$ 171	$ 4,742
Cash payments	(855)	(757)	—	(1,612)
Non-cash charges	(228)	—	(171)	(399)
Balance at June 29, 2003	575	2,156	—	2,731
Cash payments	(255)	(959)	—	(1,214)
Reversal of restructuring charges	(280)	(283)	—	(563)
Balance at June 27, 2004	$ 40	$ 914	$ —	$ 954

December 2002 Plan

The Company's December 2002 Plan activities included reducing its workforce in North America, Europe, and Asia by approximately 120 employees and by vacating selected sales and administrative facilities located in North America, Europe and Asia deemed to be no longer necessary for its operations. The employees included in the Plan were from a broad range of functions and at multiple levels of the organization, with approximately 65% from North America and approximately 35% from Europe and Asia locations. The Company recorded a restructuring charge of $5.7 million, consisting of severance and benefits for involuntarily terminated employees, charges for remaining lease payments on vacated facilities, and the write-off of related leasehold improvements. During fiscal year 2004, the Company recovered $0.1 million due to the difference between the costs previously accrued and actual costs to terminate a lease agreement related to a facility in Japan.

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

	SEVERANCE AND BENEFITS	FACILITIES	ABANDONED FIXED ASSETS	TOTAL
		(in thousands)		
December 2002 provision	$ 3,257	$ 1,945	$ 474	$ 5,676
Cash payments	(3,112)	(487)	—	(3,599)
Non-cash charges	—	(49)	(474)	(523)
Balance at June 29, 2003	145	1,409	—	1,554
Reversal of restructuring charges	—	(90)	—	(90)
Cash payments	(8)	(1,285)	—	(1,293)
Balance at June 27, 2004	$ 137	$ 34	$ —	$ 171

Fiscal 2002 Restructuring Activities

December 2001 Plan

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

During fiscal 2004, the Company recorded approximately $0.4 million of additional restructuring charges due to revision in estimates for one of its vacated facilities and the Company recovered approximately $1.4 million, net, due to the difference between the costs previously accrued and actual costs to terminate a lease agreement for a facility for which it entered into a lease cancellation agreement during the quarter ended March 28, 2004. During fiscal 2003, the Company recovered approximately $3.8 million of restructuring charges originally accrued under the December 2001 Plan, $2.1 million for benefits offered that were not utilized by terminated employees and approximately $1.7 million related to a revision to the net amount of lease payments remaining on vacated facilities. During fiscal 2003, the Company recorded approximately $3.0 million of additional restructuring charges of which $2.5 million were due to revisions the Company made in sublease assumptions for two of its vacated buildings in Fremont, California and approximately $0.1 million due to additional facility restoration costs. The remaining $0.4 million of expenses were due to revisions that the Company made in its estimates for employee termination costs.

September 2001 Plan

During the first quarter of fiscal 2002, the Company's restructuring activities included a reduction of approximately 550 employees in North America, Europe and Asia, vacating selected facilities at its Fremont, California campus deemed to be no longer required for its operations and discontinuance of the manufacture of specific products within its etch product lines. The employees were from a broad range of functions and at multiple levels of the organization, with approximately 85% from North America and 15% from Europe and Asia locations. The Company recorded a restructuring charge of $21.0 million which included severance and benefits for involuntarily terminated employees, charges for remaining lease payments, write-offs of leasehold improvements on vacated facilities, and inventory write-downs. The inventory charge of approximately $7.6 million related to the Company's decision to discontinue manufacture of specific systems within its etch product lines. The Company recovered approximately $1.7 million during fiscal year 2004, $1.0 million during fiscal year 2003, and $0.7 million during fiscal year 2002, from unanticipated subsequent sales to its installed base of these items. The Company physically disposed of approximately $1.0 million of this inventory during fiscal 2004 and $2.7 million during fiscal 2003 and 2002.

During fiscal 2003, approximately $0.9 million was recovered due to lower employee severance and termination costs of $0.6 million and lower than planned expenses for vacated facility leases of $0.3 million. The Company also recorded charges of $0.6 million for the September 2001 Plan based on a revised estimate of the length of time required to sublease one of its vacated buildings in Fremont, California.

During fiscal 2002, the Company recovered approximately $1.0 million of the September 2001 Plan charge due to lower than estimated employee termination costs of $0.7 million and lower than planned expenses relating to a vacated facility lease of $0.3 million.

Fiscal 2001 Restructuring Plans

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

Note 20: Settlement of Swap Agreement and Redemption of 4% Notes

During the quarter ended June 27, 2004, the Company settled its swap which had been used to minimize the impact of interest rate exposure associated with the Company's 4% Notes. Please see Note 4 for additional information.

Note 21: Asset Impairment Charge

During the fourth quarter of fiscal 2004, the Company decided to cease future investment in its CMP systems development as a result of evaluations of the product's potential for garnering market share and providing adequate returns on future investment. The Company determined that the carrying value of certain of its fixed assets and intellectual property directly related to the development and manufacturing of CMP systems exceeded their fair value less costs to sell. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company recorded a pre-tax impairment charge of $2.4 million, recorded in cost of goods sold, related to the fixed assets and a pre-tax charge of $0.6 million, recorded in R&D expense, associated with the intellectual property asset.

Note 22: Related Party Transactions

During fiscal year 2001, the Company's President and Chief Operating Officer signed a promissory note with Lam entitling him to borrow up to $1.0 million dollars at 6.75% simple interest. He was advanced the $1.0 million and subsequently repaid the entire amount of $1.0 million, plus accrued interest, during the quarter ended December 28, 2003.

Note 23: Legal Proceedings

From time to time, the Company has received notices from third parties alleging infringement of such parties' patent or other intellectual property rights by its products. In such cases it is the Company's policy to defend the claims, or if considered appropriate, negotiate licenses on commercially reasonable terms. However, no assurance can be given that the Company 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 its consolidated financial position or operating results.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Lam Research Corporation

We have audited the accompanying consolidated balance sheets of Lam Research Corporation as of June 27, 2004 and June 29, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 27, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lam Research Corporation as of June 27, 2004 and June 29, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 27, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst + Young LLP

San Jose, California
July 16, 2004

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAM RESEARCH CORPORATION

By: /s/ JAMES W. BAGLEY
James W. Bagley
Chairman, Chief Executive Officer

Dated: September 9, 2004

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James W. Bagley and Martin B. Anstice, jointly and severally, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report of Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signatures	Title	Date
/s/ James W. Bagley James W. Bagley	Chairman, Chief Executive Officer	September 9, 2004
/s/ Martin B. Anstice Martin B. Anstice	Vice President, Finance, Chief Financial Officer and Chief Accounting Officer	September 9, 2004
/s/ David G. Arscott David G. Arscott	Director	September 9, 2004
/s/ Robert M. Berdahl Robert M. Berdahl	Director	September 9, 2004
/s/ Richard J. Elkus, Jr. Richard J. Elkus, Jr.	Director	September 9, 2004
/s/ Jack R. Harris Jack R. Harris	Director	September 9, 2004
/s/ Grant M. Inman Grant M. Inman	Director	September 9, 2004

LAM RESEARCH CORPORATION

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	ADDITIONS CHARGED TO OTHER DESCRIBE	DEDUCTIONS DESCRIBE	BALANCE AT END OF PERIOD
YEAR ENDED JUNE 27, 2004					
Deducted from asset accounts:					
Allowance for doubtful accounts . .	$3,789,000	$701,000	$—	$ 625,000(1)	$3,865,000
YEAR ENDED JUNE 29, 2003					
Deducted from asset accounts:					
Allowance for doubtful accounts . .	$4,995,000	$694,000	$—	$1,900,000(1)(2)	$3,789,000
YEAR ENDED JUNE 30, 2002					
Deducted from asset accounts:					
Allowance for doubtful accounts . .	$4,948,000	$639,000	$—	$ 592,000(1)	$4,995,000

(1) $0.6 million, $0.8 million, and $0.6 million of specific customer accounts written-off in fiscal 2004, 2003, and 2002, respectively.

(2) In fiscal 2003, $1.1 million of specific customer accounts previously reserved were recovered.

LAM RESEARCH CORPORATION

ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 27, 2004
EXHIBIT INDEX

Exhibit	Description
3.1(22)	Certificate of Incorporation of the Registrant, dated September 7, 1989; as amended by the Agreement and Plan of Merger, Dated February 28, 1990; the Certificate of Amendment dated October 28, 1993; the Certificate of Ownership and Merger dated December 15, 1994; the Certificate of Ownership and Merger dated June 25, 1999 and the Certificate of Amendment effective as March 7, 2000.
3.2(27)	Amended and Restated By Laws of the Registrant, dated June 6, 2003.
3.3(22)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated January 27, 1997.
4.2(1)	Amended 1984 Incentive Stock Option Plan and Forms of Stock Option Agreements.
4.4(5)	Amended 1991 Stock Option Plan and Forms of Stock Option Agreements.
4.7(1)	Rights Agreement, dated as of January 23, 1997, between the Registrant and ChaseMellon Shareholder Service, L.L.C., which includes Exhibit B thereto the Form of Right Certificate.
4.8(32)	Amended and restated 1997 Stock Incentive Plan.
4.11(18)	Amended and restated 1996 Performance-Based Restricted Stock Plan.
4.12(32)	Amended and restated 1999 Stock Option Plan.
4.13(29)	Lam Research Corporation 1999 Employee Stock Purchase Plan, as amended.
4.14(30)	Lam Research Corporation 2004 Executive Incentive Plan.
10.3(2)	Form of Indemnification Agreement.
10.12(3)	ECR Technology License Agreement and Rainbow Technology License Agreement by and between Registrant and Sumitomo Metal Industries, Ltd.
10.16(4)	License Agreement effective January 1, 1992 between the Registrant and Tokyo Electron Limited.
10.30(6)	1996 Lease Agreement Between Lam Research Corporation and the Industrial Bank of Japan, Limited, dated March 27, 1996.
10.35(7)	Agreement and Plan of Merger by and among Lam Research Corporation, Omega Acquisition Corporation and OnTrak Systems, Inc., dated as of March 24, 1997.
10.38(8)	Consent and Waiver Agreement between Lam Research Corporation and IBJTC Leasing Corporation-BSC, The Industrial Bank of Japan, Limited, Wells Fargo Bank, N.A., The Bank of Nova Scotia, and the Nippon Credit Bank, Ltd., dated March 28, 1997.
10.46(9)	Receivables Purchase Agreement between Lam Research Co., Ltd. and ABN AMRO Bank N.V., Tokyo Branch, dated December 26, 1997.
10.49(9)	Guaranty to the Receivables Purchase Agreement between Lam Research Co., Ltd. and ABN AMRO Bank N.V., Tokyo Branch, dated December 26, 1997.
10.50(10)	License Agreement between Lam Research Corporation and Trikon Technologies, Inc., dated March 18, 1998.

Exhibit	Description
10.51(10)	Loan Agreement between Lam Research Corporation and The Industrial Bank of Japan, Limited, dated March 30, 1998.
10.52(11)	Credit Agreement between Lam Research Corporation and Deutsche Bank AG, New York Branch and ABN AMRO Bank N.V., San Francisco Branch, dated April 13, 1998.
10.53(11)	First Amendment to Credit Agreement between Lam Research Corporation and ABN AMRO Bank N.V., San Francisco Branch, dated August 10, 1998.
10.58(12)	Loan Agreement between Lam Research Co., Ltd. and ABN AMRO Bank N.V., dated September 30, 1998.
10.59(12)	Guaranty to Loan Agreement between Lam Research Co., Ltd and ABN AMRO Bank N.V., dated September 30, 1998.
10.61(13)	Second Amendment to Credit Agreement between ABN AMRO BANK, N.V. and Lam Research Corporation, dated December 18, 1998.
10.62(13)	First Amendment to Guaranty between ABN AMRO BANK, N.V. and Lam Research Corporation, dated December 25, 1998.
10.63(13)	Supplemental Agreement of Receivables Purchase Agreement dated December 26, 1997 between ABN AMRO BANK, N.V. and Lam Research Corporation, dated December 25, 1998.
10.64(13)	Supplemental Agreement of Loan Agreement dated September 30, 1998 between ABN AMRO BANK, N.V. and Lam Research Corporation, dated December 25, 1998.
10.66(14)	Substitution Certificate for Loan Agreement dated September 30, 1998 between ABN AMRO BANK, N.V. and Lam Research Corporation, dated March 19, 1999.
10.67(15)	OTS Issuer Stock Option Master Agreement between Lam Research Corporation and Goldman Sachs & Co., and Collateral Appendix thereto, dated June 1999.
10.68(15)	Form of ISDA Master Agreement and related documents between Lam Research Corporation and Credit Suisse Financial Products, dated June 1999.
10.69(17)	The First Amendment Agreement between Lam Research Corporation and Credit Suisse Financial Products, dated August 31, 1999.
10.70(19)	Lease Agreement between Lam Research Corporation and Scotiabanc Inc., dated January 10, 2000.
10.71(19)	Participation Agreement between Lam Research Corporation, Scotiabanc Inc., and The Bank of Nova Scotia, dated January 19, 2000.
10.73(20)	Lease Agreement Between Lam Research Corporation and Cushing 2000 Trust, dated December 6, 2000.
10.74(20)	Participation Agreement Between Lam Research Corporation and Cushing 2000 Trust, Dated December 6, 2000.
10.75(21)	Indenture between Lam Research Corporation and LaSalle Bank, National Association, as Trustee, dated May 22, 2001
10.76(21)	Registration Rights Agreement among Lam Research Corporation, Credit Suisse First Boston Corporation and ABN Amro Rothschild LLC, dated May 22, 2001.
10.77(23)	Warrant to Purchase Common Stock of Lam Research Corporation, dated December 19, 2001, issued to Varian Semiconductor Equipment Associates, Inc.

Exhibit	Description
10.78(24)	Promissory Note between Lam Research Corporation and Stephen G. Newberry dated May 8, 2001.
10.79(25)	Amendment to Stock Option Grant for James W. Bagley dated October 16, 2002.
10.80(26)	Amended and Restated Master Lease and Deed of Trust Between Lam Research Corporation and SELCO Service Corporation, dated March 25, 2003.
10.81(26)	Lease Supplement No. 1 Between Lam Research Corporation and SELCO Service Corporation, dated March 25, 2003.
10.82(26)	Participation Agreement Between Lam Research Corporation, SELCO Service Corporation and Key Corporate Capital Inc., dated March 25, 2003.
10.83(26)	Amendment to Participation Agreement Between Lam Research Corporation, Scotiabanc Inc. and The Bank of Nova Scotia, dated December 27, 2002.
10.84(26)	Amendment to Participation Agreement Between Lam Research Corporation, the Cushing 2000 Trust, Scotiabanc Inc, The Bank of Nova Scotia and Fleet National Bank, dated December 27, 2002.
10.85(26)	Employment Agreement for Stephen G. Newberry, dated January 1, 2003.
10.86(27)	Amended and Restated Master Lease and Deed of Trust Between Lam Research Corporation and SELCO Service Corporation, dated as of June 1, 2003.
10.87(27)	Lease Supplement No. 1 Between Lam Research Corporation and SELCO Service Corporation, dated as of June 1, 2003.
10.88(27)	Lease Supplement No. 2 Between Lam Research Corporation and SELCO Service Corporation, dated as of June 1, 2003.
10.89(27)	Lease Supplement No. 3 Between Lam Research Corporation and SELCO Service Corporation, dated as of June 1, 2003.
10.90(27)	Lease Supplement No. 4 Between Lam Research Corporation and SELCO Service Corporation, dated as of June 1, 2003.
10.91(27)	Lease Supplement No. 5 Between Lam Research Corporation and SELCO Service Corporation, dated as of June 1, 2003.
10.92(27)	Lease Supplement No. 6 Between Lam Research Corporation and SELCO Service Corporation, dated as of June 1, 2003.
10.93(27)	Lease Supplement No. 7 Between Lam Research Corporation and SELCO Service Corporation, dated as of June 1, 2003.
10.94(27)	Participation Agreement Between Lam Research Corporation and SELCO Service Corporation, and Key Corporate Capital Inc., dated as of June 1, 2003.
10.95(27)	Employment Agreement for Ernest Maddock, dated April 15, 2003.
10.96(28)	Employment Agreement for Nicolas J. Bright, dated August 1, 2003.
10.97	Second Amendment to Second Amended and Restated Uncommitted Insured Trade Receivables Purchase Agreement between ABN Amro Bank, N.V. and Lam Research Corporation, dated June 2, 2004.
10.98	Amended and Restated Guaranty between ABN Amro Bank, N.V. and Lam Research Corporation, dated June 2, 2004.

Exhibit	Description
10.99	Form of Nonstatutory Stock Option Agreement — Lam Research Corporation 1997 Stock Incentive Plan.
21	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24	Power of Attorney (See Signature page)
31.1	Rule 13a – 14(a) / 15d – 14(a) Certification (Principal Executive Officer)
31.2	Rule 13a – 14(a) / 15d – 14(a) Certification (Principal Financial Officer)
32.1	Certification Pursuant to 18 U.S.C. 1350 (section 906 of the of the Sarbanes-Oxley Act of 2002) — Chief Executive Officer
32.2	Certification Pursuant to 18 U.S.C. 1350 (section 906 of the of the Sarbanes-Oxley Act of 2002) — Chief Financial Officer

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(1) Incorporated by reference to Post Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8 (No. 33-32160) filed with the Securities and Exchange Commission on May 10, 1990.

(2) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 1988.

(3) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1989.

(4) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1991.

(5) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1995.

(6) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

(7) Incorporated by reference to Registrant's Report on Form 8-K dated March 31, 1997.

(8) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

(9) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997.

(10) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.

(11) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998.

(12) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

(13) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998.

(14) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 1999.

(15) Incorporated by reference to Registrant's Report on Form 8-K dated June 22, 1999.

(16) Incorporated by reference to Registrant's Report on Form S-8 dated November 5, 1998.

(17) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 26, 1999.

(18) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 26, 1999.

(19) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 26, 2000.

(20) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 24, 2000.

(21) Incorporated by reference to Registrant's Registration Statement on Form S-3 dated July 27, 2001.

(22) Incorporated by reference to Registrant's Amendment No. 2 to its Annual Report on Form 10K/A for the fiscal year ended June 25, 2000.

(23) Incorporated by reference to Registrant's Registration Statement on Form S-3 dated January 30, 2002.

(24) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

(25) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 29, 2002.

(26) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 2003.

(27) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 29, 2003.

(28) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 28, 2003.

(29) Incorporated by reference to Appendix A of the Registrant's Proxy Statement filed on October 14, 2003.

(30) Incorporated by reference to Appendix B of the Registrant's Proxy Statement filed on October 14, 2003.

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BOARD OF DIRECTORS

James W. Bagley
Chairman and Chief Executive Officer

David G. Arscott
President, Compass Technology Partners

Robert M. Berdahl, Ph.D.
Former Chancellor of the University of California, Berkeley

Richard J. Elkus, Jr.
Co-Chairman, Voyan Technology

Jack R. Harris
Chairman, HT. Inc., and Chairman, Innovative Robotic Solutions

Grant Inman
General Partner, Inman Investment Management

EXECUTIVE MANAGEMENT

James W. Bagley
Chairman and Chief Executive Officer

Stephen G. Newberry
President and Chief Operating Officer

Martin B. Anstice
Vice President and Chief Financial Officer

Nicolas J. Bright
Sr. Vice President and General Manager, Global Products

Thierry Fried
Vice President, European Sales and Field Operations

Abdi Hariri
Vice President, Customer Support Business Group

Daniel Liao
Group Vice President, Asia Pacific Operations

Steven A. Lindsay
Group Vice President, Global Sales and Corporate Marketing

Ernest E. Maddock
Group Vice President, Global Operations

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP, San Jose, California

LEGAL COUNSEL

Heller, Ehrman, White & McAuliffe
Palo Alto, California

TRANSFER AGENT AND REGISTRAR

For a response to questions regarding misplaced stock certificates, changes of address, or the consolidation of accounts, please contact the Company's transfer agent:

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, New Jersey 07660
(800) 522-6645 or (800) 356-2017
International Callers: 1-201-329-8660

INVESTOR RELATIONS

Lam Research Corporation welcomes inquiries from its stockholders and other interested investors. For additional copies of this report, or other financial information, please contact:

Investor Relations
Lam Research Corporation
4650 Cushing Parkway
Fremont, California 94538
(510) 572-2106
investor.relations@lamrc.com

STOCK LISTING

The Company's common stock is traded on The Nasdaq National Market under the symbol LRCX

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at 11:00 a.m. on Thursday, November 4, 2004, at the Company's corporate headquarters.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

With the exception of historical facts, the statements contained in the Annual Report and Proxy Statement are forward-looking statements, which are subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements that relate to our future revenue, changing customer requirements, product development, demand, acceptance and market share, competitiveness, gross margins, levels of research and development (R&D), outsourcing plans and operating expenses, our management's plans and objectives for our current and future operations, the effects of our restructurings and consolidation of operations and facilities, our ability to complete contemplated restructurings or consolidations on time or within anticipated costs, the levels of customer spending or R&D activities, general economic conditions, and the sufficiency of financial resources to support future operations and capital expenditures. Such statements are based on current expectations and are subject to risks, uncertainties and changes in condition, significance, value and effect, including those discussed below and under the heading "Risk Factors" within the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other documents we file from time to time with the Securities and Exchange Commission such as our 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 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 of information currently and reasonably known. 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. All references to fiscal years apply to our fiscal years, which ended June 27, 2004, June 29, 2003, and June 30, 2002.

Lam Research Corporation
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Fremont, CA 94538 U.S.A.
510 572 0200
www.lamrc.com

Changing the Value Equation