

The background of the cover is a composite image of a semiconductor manufacturing facility. It shows a worker in a cleanroom, a large circular furnace with a glowing orange interior, and several circular wafers with blue patterns. The image is overlaid with a blue and white grid pattern and various geometric shapes like squares and circles, suggesting a high-tech, data-driven environment.

Innovative **Technology**  
Trusted **Productivity**  
Fast **Solutions**

# products

## etch



**2300<sup>®</sup> Kiyo<sup>®</sup>**  
Conductor Etch Family



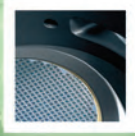
**2300<sup>®</sup> Flex<sup>™</sup>**  
Dielectric Etch Family



**2300<sup>®</sup> Versys<sup>®</sup> Metal**  
Metal Etch Family



**2300<sup>®</sup> Syndion<sup>®</sup>**  
TSV Etch Family

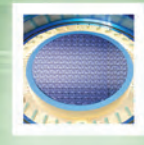


**TCP<sup>®</sup> 9400DSi<sup>™</sup>**  
MEMS/Deep Silicon  
Etch Family

## deposition



**VECTOR<sup>®</sup>**  
PECVD Family



**SPEED<sup>®</sup>**  
HDP-CVD Family



**ALTUS<sup>®</sup>**  
W-CVD Family



**SABRE<sup>®</sup>**  
ECD Family



**INOVA<sup>®</sup>**  
PVD Family



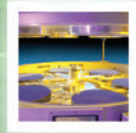
**SOLA<sup>®</sup>**  
UVTP Family

1000  
500  
250  
150  
100  
50  
0

# strip & clean



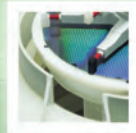
**GxT<sup>®</sup>  
G400<sup>®</sup>  
G3D<sup>™</sup>**  
Standalone Strip



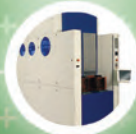
**Strip45<sup>™</sup>  
Microwave Stripper**  
Integrated Strip



**DV-Prime<sup>®</sup>  
Da Vinci<sup>®</sup>  
SP Series**  
Spin Wet Clean



**2300<sup>®</sup> Coronus<sup>®</sup>**  
Plasma Bevel Clean



# customer support



**Service**



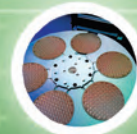
**Spares**



**Upgrades**



**Refurbishment**



**Legacy Products**



**Technical Training**

The semiconductor capital equipment industry has been, and continues to be, a key enabler for the creation of the electronic products that are transforming our everyday lives. This paradigm has been particularly evident at Lam Research in the last 12 months. Just before the end of our fiscal year, we closed our acquisition of Novellus Systems. This accomplishment brought together two great companies and two solid management teams in what we believe will be a landmark transaction for our industry, our customers, and our investors. In addition, for the second time in the company's history, we promoted a new CEO from within our executive ranks. This passing of the baton—a more appropriate analogy than the oft-heard “changing of the guard”—underscores the importance of Lam's culture of cultivating, growing, and retaining a strong talent pool within the organization. Leveraging the strengths of the combined executive leadership team, we are working together to help our customers solve the ever more complex technical challenges that they face.

We are building on our successful strategy of expanding into adjacent markets with Novellus' leadership in the thin film deposition and wafer surface preparation markets complementing Lam's leadership in etch and single-wafer clean technologies. This combination nearly doubles the size of Lam's served markets to approximately 30 percent of wafer fabrication equipment spending. Moreover, Lam is now broadly positioned in each of the top 10 semiconductor manufacturers, and our comprehensive product portfolio and process knowledge make available exciting opportunities for market share expansion and accelerated growth.

Historically, semiconductor device manufacturers have been able to deliver more functionality and performance at lower power and lower cost with each successive technology node. The Novellus transaction comes at a time when our customers are faced with unprecedented technology challenges and cost pressures posed by next-generation chip designs. By combining forces in this environment, Lam and Novellus are establishing the scope and scale to further enhance our relevance to our customers while efficiently supporting investments necessary to position the company for future growth.

The potential value creation resulting from this transaction is significant, and we are focused on realizing those opportunities. We have already made meaningful progress toward integrating organizations and business processes and have identified and are executing to our objectives relating to cost synergies. More importantly, we believe we have the opportunity to achieve revenue synergies that exceed our cost savings as we harness the innovation, capability, and complementary nature of our combined businesses.

In fiscal 2012, macroeconomic conditions negatively impacted electronics demand. As a result, we saw a pause in semiconductor equipment spending as customers slowed the pace of their capacity investments. In this environment, Lam generated \$2.7 billion in revenue for the fiscal year and \$1.35 in diluted per share earnings. We achieved strong cash flow generation, which enabled us to begin executing on the \$1.6 billion share repurchase plan that accelerates the accretion of the acquisition. Overall, we returned approximately \$0.9 billion dollars to our shareholders through stock repurchases and increased our cash and short-term investments from the prior year end to \$2.9 billion.

Looking ahead, our combined organization is energized and focused on “Innovative Technology, Trusted Productivity, Fast Solutions”. This theme conveys our commitment to deliver best-of-breed technology and productivity solutions, to accelerate that delivery by leveraging our adjacent technologies, and to enhance our complementary customer relationships through a strengthened global organization. We believe these capabilities exemplify the focus of our company and define the strategic priority for strengthening competitive differentiation.

As we reflect on what has certainly been a transformative year for the company, we also pause to recognize the end of an extraordinary era in Lam’s history. In late August, Jim announced his decision to retire from the industry and will step down as chairman of the board on November 1, 2012. During his 16-year tenure, Jim’s passion and leadership propelled Lam to the forefront of the semiconductor equipment industry. We are pleased that Steve Newberry has been named Jim’s successor as chairman of the board, further assuring the leadership continuity that has defined our organization for many years.

In closing, we want to extend an enthusiastic welcome to the Novellus employees who have joined Lam Research. We would also like to express our sincere gratitude to the entire Lam organization for their tremendous efforts and dedication, our customers for their collaboration and support, and our stockholders for your interest and investment in us.

Sincerely,



Martin B. Anstice  
President and Chief Executive Officer



James W. Bagley  
Chairman of the Board

SEPTEMBER 5, 2012

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Ernst & Young LLP  
San Jose, California

**LEGAL COUNSEL**

Jones Day  
San Francisco, 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.

Computershare Shareowner Services  
P.O. Box 43006  
Providence, RI 02940-3006  
1.877.265.2630

TDD for Hearing Impaired:  
1.800.231.5469

Foreign Shareowners:  
1.201.680.6578

TDD Foreign Shareowners:  
1.201.680.6610

Website Address:  
[www.computershare.com/investor](http://www.computershare.com/investor)

**STOCK LISTING**

The company's common stock is traded on the NASDAQ Global Select Market<sup>SM</sup> under the symbol LRCX. Lam Research is an S&P 500<sup>®</sup> and NASDAQ-100<sup>®</sup> company.

**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  
1.510.572.1615  
[investor.relations@lamresearch.com](mailto:investor.relations@lamresearch.com)

**ANNUAL MEETING**

The Annual Meeting of Stockholders will be held at 11:00 a.m. Pacific Time on Thursday, November 1, 2012, at the company's corporate headquarters.

**CAUTIONS REGARDING FORWARD-LOOKING STATEMENTS**

With the exception of historical facts, the statements contained in this Letter to Our Stockholders ("Letter") are forward-looking statements. Forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. We have identified certain, but not necessarily all, of the forward-looking statements in the Letter by use of future-oriented words and phrases such as "next several years", "potential", "will", "expect", and "should". However, our identification of certain statements as forward-looking does not mean that other statements not specifically identified are not forward-looking. Forward-looking statements include, but are not limited to, statements that relate to: our general prospects for the future; projections of future market opportunities for our etch, single-wafer clean, and deposition products and our prospects for market share expansion and growth opportunities for our existing and prospective customers; projections for cost savings; expectations for future share repurchases; prospects for accretion in conjunction with our acquisition of Novellus Systems; prospects for successful leadership transitions; the health of semiconductor demand; the company's ability to sustain a competitive advantage; and the strengthening of our end markets. These statements are based on current expectations and are subject to risks, uncertainties, and changes in condition, significance, value and effect, including without limitation those discussed under the heading "Risk Factors" within Item 1A of our fiscal 2011 Form 10-K; under the heading "Cautionary Statement Regarding Forward-Looking Statements" at the beginning of Part I of the Form 10-K; and other documents we file from time to time with the Securities and Exchange Commission (SEC), such as our quarterly reports on Form 10-Q and current reports on Form 8-K. These risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed in this Letter and in ways that are not readily foreseeable. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Letter and are based on information currently and reasonably known to us. We do not undertake any obligation to update any forward-looking statements, or to release the results of any revisions to these forward-looking statements, to reflect the impact of anticipated or unanticipated events or circumstances that occur after the date of this Letter.

**TRADEMARK INFORMATION**

The Lam Research logo, Lam Research, and all Lam Research product and service names used in this report are either registered trademarks or trademarks of Lam Research Corporation in the United States and/or other countries. All other marks mentioned herein are the property of their respective owners.



4650 Cushing Parkway  
Fremont, California 94538  
Telephone: 510-572-0200

**NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS**

<b>DATE AND TIME</b>	Thursday, November 1, 2012 at 11:00 a.m. local time
<b>PLACE</b>	Principal executive offices of Lam Research Corporation, 4650 Cushing Parkway, Fremont, California 94538
<b>INTERNET</b>	Listen to the annual meeting online by clicking on the Calendar/Webcasts link at <a href="http://investor.lamresearch.com">http://investor.lamresearch.com</a> . The proxy materials are also available at that website and at <a href="http://proxyvote.com">proxyvote.com</a> .
<b>AGENDA</b>	<p><b>Vote on Proposal No. 1:</b> Election of directors to serve for the ensuing year, and until their respective successors are elected and qualified</p> <p><b>Vote on Proposal No. 2:</b> Advisory vote on fiscal year 2012 executive compensation (“Say on Pay”)</p> <p><b>Vote on Proposal No. 3:</b> Ratification of the appointment of independent registered public accounting firm for fiscal year 2013</p> <p>Transact other business that may properly come before the annual meeting (including any adjournment or postponement)</p>
<b>RECORD DATE</b>	September 7, 2012. Only stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the annual meeting.
<b>VOTING</b>	Please vote as soon as possible, even if you plan to attend the annual meeting in person. You have three options for submitting your vote before the annual meeting: by the internet, phone or mail. The proxy statement and the accompanying proxy card provide detailed voting instructions.

By Order of the Board of Directors

A handwritten signature in cursive script, appearing to read "Sarah A. O'Dowd".

Sarah A. O'Dowd  
Secretary

**This proxy statement is first being made available and/or mailed to our stockholders on or about September 21, 2012.**

LAM RESEARCH CORPORATION

PROXY STATEMENT  
FOR  
2012 ANNUAL MEETING OF STOCKHOLDERS  
To Be Held November 1, 2012

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## LAM RESEARCH CORPORATION

### PROXY STATEMENT FOR 2012 ANNUAL MEETING OF STOCKHOLDERS

Our board of directors solicits your proxy for the 2012 Annual Meeting of Stockholders and any adjournment or postponement of the meeting, for the purposes described in the “Notice of 2012 Annual Meeting of Stockholders.” The table below shows important details about the annual meeting and voting. We use the terms “Lam Research,” the “Company,” “we,” “our,” “Lam’s,” and “us” in this proxy statement to refer to Lam Research Corporation, a Delaware corporation.

<b>Record Date</b>	September 7, 2012. Only stockholders of record at the close of business on the Record Date are entitled to receive notice of and to vote at the annual meeting.
<b>Shares Outstanding</b>	177,325,100 shares of common stock were outstanding as of the Record Date.
<b>Quorum</b>	A majority of shares outstanding on the Record Date constitutes a quorum. A quorum is required to transact business at the annual meeting.
<b>Inspector of Elections</b>	The Company will appoint an inspector of elections to determine whether a quorum is present. The inspector will also tabulate the votes cast by proxy or at the annual meeting.
<b>Effect of Abstentions and Broker Non-Votes</b>	Shares voted “abstain” and broker non-votes (shares held by brokers that do not receive voting instructions from the beneficial owner of the shares, and do not have discretionary authority to vote on a matter) will be counted as present for purposes of determining whether we have a quorum. For purposes of voting results, abstentions will not be counted with respect to the election of directors but will have the effect of “no” votes with respect to other proposals, and broker non-votes will not be counted with respect to any proposal.
<b>Voting by Proxy</b>	Stockholders may vote by internet, phone, or mail, per the instructions on the accompanying proxy card.
<b>Voting at the Meeting</b>	Stockholders can vote in person during the meeting. Stockholders of record will be on a list held by the inspector of elections. Each beneficial owner (an owner who is not the record holder of their shares) must obtain a proxy from the beneficial owner’s brokerage firm, bank, or the stockholder of record holding such shares for the beneficial owner, and present it to the inspector of elections with a ballot. Voting in person by a stockholder as described here will replace any previous votes of that stockholder submitted by proxy.
<b>Changing Your Vote</b>	Stockholders of record may change their votes by revoking their proxies. This may be done at any time before the polls close by (a) submitting a later-dated proxy by the internet, telephone or mail, or (b) submitting a vote in person at the annual meeting. Before the meeting, stockholders of record may also deliver voting instructions to our corporate secretary, Sarah A. O’Dowd, Office of the Secretary, Lam Research Corporation, 4650 Cushing Parkway, Fremont, California 94538. If a beneficial owner holds shares through a bank or brokerage firm, or another stockholder of record, the beneficial owner must contact the stockholder of record in order to revoke any prior voting instructions.

<b>Voting Instructions</b>	If a stockholder completes and submits proxy voting instructions, the people named on the proxy card as proxy holders (the “Proxy Holders”) will follow the stockholder’s instructions. If a stockholder submits proxy voting instructions but does not include voting instructions for each item, the Proxy Holders will vote as the board recommends on each item for which the stockholder did not include an instruction. The Proxy Holders will vote on any other matters properly presented at the annual meeting in accordance with their best judgment.
<b>Voting Results</b>	We will announce preliminary results at the annual meeting. We will report final voting results at <a href="http://investor.lamresearch.com">http://investor.lamresearch.com</a> and in a Form 8-K to be filed shortly after the annual meeting.
<b>Availability of Proxy Materials</b>	<p>We mailed this proxy statement and the accompanying proxy card and 2012 Annual Report to stockholders entitled to vote at the annual meeting who have designated a preference for a printed copy beginning on September 21, 2012. Stockholders who previously chose to receive proxy materials electronically were sent an email with instructions on how to access this year’s proxy materials and the proxy voting site.</p> <p>We have also provided our stockholders access to our proxy materials over the internet in accordance with rules and regulations adopted by the United States Securities and Exchange Commission (“SEC”). These materials are available on our website at <a href="http://investor.lamresearch.com">http://investor.lamresearch.com</a> and at <a href="http://proxyvote.com">proxyvote.com</a>. We will furnish, without charge, a printed copy of these materials and our 2012 Annual Report (including exhibits) on request by phone (510-572-1615), by mail (to Investor Relations, 4650 Cushing Parkway, Fremont, California 94538), or by email (to <a href="mailto:investor.relations@lamresearch.com">investor.relations@lamresearch.com</a>).</p> <p>A Notice of Internet Availability of Proxy Materials will be mailed beginning on September 21, 2012 to all stockholders entitled to vote at the meeting. The notice will have instructions for stockholders on how to access our proxy materials through the internet and how to request that a printed copy of the proxy materials be mailed to them. The notice will also have instructions on how to elect to receive all future proxy materials electronically or in printed form. If you choose to receive future proxy materials electronically, you will receive an email each year with instructions on how to access the proxy materials and proxy voting site.</p>
<b>Proxy Solicitation Costs</b>	The Company will bear the cost of all proxy solicitation activities. Our directors, officers and other employees may solicit proxies personally or by telephone, email or other communication means, without any cost to Lam Research. In addition, we have retained Phoenix Advisory Partners to assist in obtaining proxies by mail, facsimile or email from brokers, bank nominees and other institutions for the annual meeting. The estimated cost of such services is \$8,500 plus out-of-pocket expenses. Phoenix Advisory Partners may be contacted at 110 Wall Street, 27 <sup>th</sup> Floor, New York, New York 10005. We are required to request that brokers and nominees who hold stock in their names furnish our proxy materials to the beneficial owners of the stock, and we must reimburse these brokers and nominees for the expenses of doing so in accordance with statutory fee schedules.

## OTHER MEETING INFORMATION

### Voting on Proposals

Pursuant to Proposal No. 1, board members will be elected at the annual meeting to fill eleven seats on the board under a “majority vote” standard. The majority voting standard means that, even though there are eleven nominees for the eleven board seats, a nominee will be elected only if he or she receives an affirmative “for” vote from stockholders owning, as of the Record Date, at least a majority of the shares present and voted at the meeting in such nominee’s election by proxy or in person. If an incumbent fails to receive the required majority, his or her previously submitted resignation will be promptly considered by the board. Each stockholder may cast one vote (“for” or “withhold”), per share held, for each of the eleven nominees. Stockholders may not cumulate votes in the election of directors.

Each share is entitled to one vote on Proposals No. 2 and 3. Votes may be cast “for,” “against” or “abstain” on those Proposals.

If a stockholder votes by means of the proxy solicited by this proxy statement and does not instruct the Proxy Holders how to vote, the Proxy Holders will vote: “for” all individuals nominated by the board; “for” approval, on an advisory basis, of the fiscal year 2012 compensation of the Company’s named executive officers; and “for” the ratification of Ernst & Young LLP as the Company’s independent registered public accounting firm for fiscal year 2013.

If you choose to vote in person, you will have an opportunity to do so at the annual meeting. You may either bring your proxy card to the annual meeting, or if you do not bring your proxy card, the Company will pass out written ballots to anyone who was a stockholder as of the Record Date. As noted above, if you are a beneficial owner (an owner who is not the record holder of their shares), you will need to obtain a proxy from your brokerage firm, bank, or the stockholder of record holding shares on your behalf.

### Voting by 401(k) Plan Participants

Employee participants in Lam’s Savings Plus Plan, Lam Research 401(k) and the Novellus 401(k) Plan (the “401(k) Plans”) who held the Company’s common stock in their personal 401(k) Plan accounts as of the Record Date will receive this proxy statement, so that each participant may vote, by proxy, his or her interest in the Company’s common stock as held by the 401(k) Plans. The 401(k) Plan trustees, or the Company’s Savings Plus Plan, Lam Research 401(k) Committee as the administrator of the 401(k) Plans, will aggregate and vote proxies in accordance with the instructions in the proxies of employee participants that they receive.

### Stockholder Accounts Sharing the Same Last Name and Address

To reduce the expense of delivering duplicate proxy materials to stockholders who may have more than one account holding Lam Research stock but who share the same address, we have adopted a procedure approved by the SEC called “householding.” Under this procedure, stockholders of record who have the same address and last name will receive only one copy of our proxy statement and annual report unless one of the stockholders notifies our investor relations department that he or she wants to receive separate copies. This procedure reduces duplicate mailings and therefore saves printing and mailing costs, as well as natural resources. Stockholders who participate in householding will continue to have access to all proxy materials at <http://investor.lamresearch.com>, as well as the ability to submit separate proxy voting instructions for each account through the internet or by phone.

Stockholders may request separate copies of the proxy materials for multiple accounts holding Lam Research stock by contacting the Company by phone (510-572-1615), by mail (to Investor Relations, 4650 Cushing Parkway, Fremont, California 94538) or by email (to [investor.relations@lamresearch.com](mailto:investor.relations@lamresearch.com)). Stockholders may also request consolidation of proxy materials mailed to multiple accounts at the same address.

## **Stockholder-Initiated Proposals and Nominations for 2013 Annual Meeting**

*Proposals submitted under SEC rules for inclusion in the Company's proxy statement.* Stockholder-initiated proposals (other than director nominations) may be eligible for inclusion in our proxy statement for next year's 2013 annual meeting (in accordance with SEC Rule 14a-8) and for consideration at the annual meeting. The Company must receive a stockholder proposal no later than May 23, 2013 for the proposal to be eligible for inclusion. Any stockholder interested in submitting a proposal or nomination is advised to contact legal counsel familiar with the detailed securities law requirements for submitting proposals or nominations for inclusion in a company's proxy statement.

*Proposals and nominations under Company bylaws.* Stockholders may also submit proposals for consideration, and nominations of director candidates for election, at the annual meeting by following certain requirements set forth in our bylaws. The current applicable provisions of our bylaws are described below. Proposals will not be eligible for inclusion in the Company's proxy statement unless they are submitted in compliance with then applicable SEC rules; however, they will be presented for discussion at the annual meeting if the requirements established by our bylaws for stockholder proposals and nominations have been satisfied. Under current SEC rules, stockholder nominations for directors are not eligible for inclusion in the Company's proxy materials.

Our bylaws establish requirements for stockholder proposals and nominations to be discussed at the annual meeting even though they are not included in our proxy statement. Assuming that the 2013 annual meeting takes place at roughly the same date next year as the 2012 annual meeting (and subject to any change in our bylaws—which would be publicly disclosed by the Company—and to any provisions of then-applicable SEC rules), the principal requirements for the 2013 annual meeting would be as follows:

### *For proposals and for nominations:*

- A stockholder of record ("the Stockholder") must submit the proposal or nomination in writing; it must be received by the secretary of the Company no earlier than July 5, 2013, and no later than August 6, 2013;
- The Stockholder's notice to the secretary of a proposal or nomination must state for each of the Stockholder and the beneficial owner of Company common stock, if any, on behalf of whom the proposal or nomination is being made (a "Beneficial Owner"):
  - the name and record address of the Stockholder and the Beneficial Owner;
  - the class, series and number of shares of capital stock of the Company that are owned beneficially or of record by the Stockholder and the Beneficial Owner;
  - a description of any options, warrants, convertible securities, or similar rights held by the Stockholder or the Beneficial Owner with respect to the Company's stock, and any other opportunities by the Stockholder or the Beneficial Owner to profit or share in any profit derived from any increase or decrease in the value of shares of the Company, including through a general or limited partnership or ownership interest in a general partner;
  - a description of any proxies, contracts, or other voting arrangements to which the Stockholder or the Beneficial Owner is a party concerning the Company's stock;
  - a description of any short interest held by the Stockholder or the Beneficial Owner in the Company's stock;
  - a description of any rights to dividends separated or separable from the underlying shares of the Company to which the Stockholder or the Beneficial Owner are entitled;
  - any other information relating to the Stockholder or the Beneficial Owner 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, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Securities Exchange Act of 1934 (the “Exchange Act”) and the rules and regulations pursuant thereto; and

- a statement whether or not the Stockholder or the Beneficial Owner will deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of voting power of all of the shares of capital stock of the Company required under applicable law to carry the proposal or, in the case of nominations, at least the percentage of voting power of all of the shares of capital stock of the Company reasonably believed by the Stockholder or the Beneficial Owner, as the case may be, to be sufficient to elect the nominee or nominees proposed to be nominated by the Stockholder or Beneficial Owner under a majority voting standard.

Additionally, for *nominations*, the notice must:

- Set forth, as to each person whom the Stockholder proposes to nominate for election or reelection as a director, all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act;
- Be accompanied by a written consent of each proposed nominee to be named as a nominee and to serve as a director if elected; and
- Be accompanied by a statement whether such person, if elected, intends to tender, promptly following such person’s election or reelection, an irrevocable resignation effective upon such person’s failure to receive the required vote for reelection at the next meeting at which such person would face reelection and upon acceptance of such resignation by the board, in accordance with our corporate governance guidelines.

Additionally, for *proposals*, the notice must set forth a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such Stockholder and the Beneficial Owner, if any, on whose behalf the proposal is made.

For a full description of the requirements for submitting a proposal or nomination, see the Company’s bylaws. Submissions or questions should be sent to: Sarah A. O’Dowd, Office of the Secretary, Lam Research Corporation, 4650 Cushing Parkway, Fremont, California 94538.

**PROPOSAL NO. 1  
ELECTION OF DIRECTORS**

**NOMINEES FOR DIRECTOR**

A board of eleven directors is to be elected at the 2012 annual meeting. In general, the eleven nominees who receive the highest number of “for” votes will be elected. However, any nominee who fails to receive affirmative approval from holders of a majority of the votes cast in such nominee’s election at the annual meeting, either by proxy or in person, will not be elected to the board, even if he or she is among the top eleven nominees in total “for” votes. This requirement reflects the majority vote provisions implemented by the Company in November 2009. The term of office of each person elected as a director will be for the ensuing year, and until his or her successor is elected and qualified.

Unless otherwise instructed, the Proxy Holders will vote the proxies received by them for the eleven nominees named below, each of whom is currently a director of the Company. The proxies cannot be voted for more than eleven nominees, whether or not there are additional nominees. If any nominee of the Company should decline or be unable to serve as a director as of the time of the annual meeting, and unless otherwise instructed, the proxies will be voted for any substitute nominee 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.

The individuals in the table below who are shown as nominees for reelection have been nominated for election to the board of directors in accordance with the criteria and procedures discussed below in “*Corporate Governance.*” The eleven directors to be elected is fewer than the fifteen members as of the filing date, and the board has reduced the size of the board to eleven, effective as of the end of the current directors’ term.

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

The following table sets forth certain information concerning the nominees to the board, including their qualifications to serve and their ages as of September 1, 2012.

<b>Board Member Name and Current Board Role(s)</b>	<b>Principal Occupation and Business Experience During Past Five Years</b>
<p><b>Martin B. Anstice</b>, age 45</p> <p><i>Nominee for reelection</i></p> <p>President and Chief Executive Officer</p>	<p>Mr. Anstice has been a director of the Company since February 2012 and has served as the Company’s President and Chief Executive Officer since January 2012. Mr. Anstice joined the Company 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 Group Vice President, Chief Financial Officer, and Chief Accounting Officer in June 2004. He was appointed Executive Vice President and Chief Operating Officer in September 2008 and President in December 2010. Prior to joining the Company, Mr. Anstice held various finance positions from 1988 to 1999 at Raychem Corporation, a global materials science company. Subsequent to the acquisition of Raychem by Tyco International, a global provider of engineered electronic components, network solutions and wireless systems, he assumed responsibilities supporting mergers and acquisition activities of Tyco Electronics.</p> <p>Mr. Anstice is an Associate member of the Institute of Chartered Management Accountants in the United Kingdom.</p> <p>The board has concluded that Mr. Anstice is qualified to serve as a director of the Company because of his experience in the semiconductor equipment industry, including as current President and Chief Executive Officer of the Company, past President and Chief Operating Officer, and past Chief Financial Officer of the Company, and as a director of the Company, as well as his strong leadership and prior experience as a corporate executive.</p>

Board Member Name and Current Board Role(s)	Principal Occupation and Business Experience During Past Five Years
<p><b>Eric K. Brandt</b>, age 50</p> <p><i>Nominee for reelection</i></p> <p>Audit Committee member</p>	<p>Mr. Brandt has been a director of the Company since September 2010. Mr. Brandt serves as Executive Vice President and Chief Financial Officer of Broadcom Corporation, a global supplier of semiconductor devices, a role in which he has served since joining Broadcom in March 2007. From September 2005 to March 2007, Mr. Brandt served as President and Chief Executive Officer of Avanir Pharmaceuticals, Inc., a pharmaceutical company. Prior to Avanir Pharmaceuticals, Mr. Brandt was Executive Vice President-Finance and Technical Operations and Chief Financial Officer of Allergan Inc., a global specialty pharmaceutical company, where he also held a number of other senior positions following his arrival there in May 1999.</p> <p>Mr. Brandt serves as a member of the board of directors and a member of the compensation committee of Dentsply International, Inc., a manufacturer and distributor of dental product solutions. He previously served as a member of the boards of directors of Avanir Pharmaceuticals and of Vertex Pharmaceuticals, Inc., a pharmaceutical company, where he was chair of the audit committee.</p> <p>Mr. Brandt received a B.S. in Chemical Engineering from the Massachusetts Institute of Technology and an M.B.A. from the Harvard Graduate School of Business.</p> <p>The board has concluded that Mr. Brandt is qualified to serve as a director of the Company because of his financial expertise including as an active chief financial officer of a publicly traded company that is a customer of our customers, his experience in the semiconductor industry, and his service on other boards of directors.</p>
<p><b>Michael R. Cannon</b>, age 59</p> <p><i>Nominee for reelection</i></p> <p>Compensation Committee member</p> <p>Nominating and Governance Committee member</p>	<p>Mr. Cannon has been a director of the Company since February 2011. He is the General Partner of MRC &amp; LBC Partners, LLC. From February 2007 until his retirement in January 2009, Mr. Cannon served as President of Global Operations of Dell Inc., a computer systems manufacturer and services provider. Prior to joining Dell, he was President and Chief Executive Officer of Solectron Corporation, an electronic manufacturing services company, from January 2003 to February 2007. From July 1996 to January 2003, Mr. Cannon served as President and Chief Executive Officer of Maxtor Corporation, a disk drive and storage systems manufacturer.</p> <p>Mr. Cannon serves on the boards of directors of Adobe Systems Inc., a diversified software company, and Seagate Technology Public Limited, a disk drive and storage solutions company. Mr. Cannon previously served on the boards of directors of Solectron and the Elster Group SE, a metering and smart grid technology company.</p> <p>He studied mechanical engineering at Michigan State University and completed the Advanced Management Program at the Harvard Graduate School of Business.</p> <p>The board has concluded that Mr. Cannon is qualified to serve as a director of the Company because of his experience as a director on other public company boards, his experience in leadership roles at a public corporation that is a customer of our customers, and his industry and technology knowledge.</p>

<b>Board Member Name and Current Board Role(s)</b>	<b>Principal Occupation and Business Experience During Past Five Years</b>
<p><b>Youssef A. El-Mansy</b>, age 67</p> <p><i>Nominee for reelection</i></p> <p>Compensation Committee member</p>	<p>Dr. El-Mansy has been a director of the Company since June 2012. He is the retired Vice President, Director of Logic Technology Development, at Intel Corporation, a leading producer of microchips, computing and communications products, where he was responsible for managing technology development, the processor design center for Intel’s Technology and Manufacturing Group and two wafer manufacturing facilities. Dr. El-Mansy joined Intel in 1979 and led microprocessor technology development at Intel for 20 years.</p> <p>Dr. El-Mansy served on the board of directors of Novellus Systems, Inc., a semiconductor wafer fabrication equipment company, from April 2004 until its merger with Lam Research in June 2012 and on the board of directors of Zygo Corporation, a designer and manufacturer of optical systems, from July 2004 to June 2009.</p> <p>Dr. El-Mansy holds Bachelor of Science and Masters degrees in Electronics and Communications from Alexandria University in Egypt and a Ph.D. in Electronics from Carleton University in Ottawa, Canada.</p> <p>The board has concluded that Dr. El-Mansy is qualified to serve as a director of the Company because of his more than 30 years of experience as an executive focused on the manufacturing of technological devices and components for a company that is a customer of the Company; his knowledge of the business and operations of Novellus, resulting from his service as a director of Novellus since 2004; and his public company experience as a director and member of a compensation committee of another publicly traded company.</p>
<p><b>Christine A. Heckart</b>, age 46</p> <p><i>Nominee for reelection</i></p> <p>Compensation Committee member</p>	<p>Ms. Heckart has been a director of the Company since April 2011. She is the Chief Marketing Officer of ServiceSource, a service revenue management company. From 2010 to 2012, she was the Chief Marketing Officer at NetApp, Inc., a leading provider of data storage and management solutions. Ms. Heckart served as General Manager for the TV, video and music business of Microsoft Corporation, a developer of software, services, and hardware, from 2005 to 2010; and she led global marketing at Juniper Networks, Inc., a provider of network infrastructure solutions, from 2002 to 2005. She was President at TeleChoice, Inc, a consulting firm specializing in business and marketing strategies, from 1995 to 2002.</p> <p>Ms. Heckart holds a degree in economics from the University of Colorado at Boulder.</p> <p>The board has concluded that Ms. Heckart is qualified to serve as a director of the Company because of her experience in leadership roles at public corporations, her knowledge of the electronics industry and her strong marketing background.</p>



<b>Board Member Name and Current Board Role(s)</b>	<b>Principal Occupation and Business Experience During Past Five Years</b>
<p><b>Grant M. Inman</b>, age 70</p> <p><i>Nominee for reelection</i></p> <p>Compensation Committee Chair</p> <p>Nominating and Governance Committee member</p>	<p>Mr. Inman has been a director of the Company since August 1981. He is the founder and General Partner of Inman Investment Management, a venture investment firm formed in 1998. Prior to 1998, he co-founded and served as General Partner of Inman &amp; Bowman, a venture capital firm formed in 1985. Mr. Inman was a general partner of the investment banking firm Hambrecht &amp; Quist from 1980 to 1985.</p> <p>Mr. Inman has served on the board of directors of Paychex, Inc., a payroll and human resources outsourcing services company, since 1983 and is a Trustee of The University of California, Berkeley Foundation. He previously served as a director of Wind River Systems, Inc., a developer of operating systems, middleware and software development tools, from June 1999 to July 2009.</p> <p>Mr. Inman holds a B.A. degree in economics from the University of Oregon and an M.B.A. from the University of California, Berkeley.</p> <p>The board has concluded that Mr. Inman is qualified to serve as a director of the Company because of his prior service as a director of the Company, his industry knowledge, his extensive experience on other boards (including as chairman of audit, compensation and nominating and governance committees), and the diverse perspective he brings from his venture investment experience.</p>
<p><b>Catherine P. Lego</b>, age 55</p> <p><i>Nominee for reelection</i></p> <p>Audit Committee Chair</p>	<p>Ms. Lego has been a director of the Company since January 2006. From December 1999 to December 2009, she was the General Partner of The Photonics Fund, LLP, a venture capital investment firm that she founded. Prior to forming The Photonics Fund, she founded Lego Ventures LLC, a consulting services firm for early stage electronics companies, and practiced as a Certified Public Accountant with Coopers &amp; Lybrand, an accounting firm.</p> <p>Ms. Lego currently serves on the board of directors and chairs the audit committee of SanDisk Corporation, a global developer of flash memory storage solutions.</p> <p>She received a B.A. in economics and biology from Williams College and an M.S. in Accounting from the New York University Graduate School of Business.</p> <p>The board has concluded that Ms. Lego is qualified to serve as a director of the Company because of her prior service on the board, her substantial accounting and financial expertise, her knowledge of the electronics industry and the perspective of companies that are customers of our customers, and experience on other boards, including her current service as chairman of the audit committee of SanDisk.</p>

<b>Board Member Name and Current Board Role(s)</b>	<b>Principal Occupation and Business Experience During Past Five Years</b>
<p><b>Stephen G. Newberry</b>, age 58</p> <p><i>Nominee for reelection</i></p> <p>Vice Chairman</p>	<p>Mr. Newberry has been a director of the Company since June 2005 and has served as the Vice Chairman of the Company’s board since December 2010. He served as the Company’s Chief Executive Officer from June 2005 to January 2012, the Company’s President from July 1998 to December 2010, and the Company’s Chief Operating Officer from 1997 to 2005. Mr. Newberry joined the Company in August 1997 as Executive Vice President and Chief Operating Officer. Prior to joining the Company, Mr. Newberry held various executive positions at Applied Materials, Inc. during his 17-year tenure there.</p> <p>Mr. Newberry serves on the boards of directors of Nanometrics Incorporated, a provider of process control metrology and inspection systems, and Semiconductor Equipment and Materials International (“SEMI”), a global semiconductor industry trade association.</p> <p>Mr. Newberry previously served as a director of Amkor Technology, Inc., a provider of outsourced semiconductor packaging assembly and test services, and Nextest Systems Corporation, a developer of automated test equipment systems for the semiconductor industry</p> <p>Mr. Newberry is a graduate of the U.S. Naval Academy and the Harvard Graduate School of Business.</p> <p>The board has concluded that Mr. Newberry is qualified to serve as a director of the Company because of his 30 years’ experience in the semiconductor equipment industry, his comprehensive understanding of the Company and its products, markets, and strategies gained through his role as an executive of our Company, including as our Chief Executive Officer, his active role in the semiconductor industry’s trade association, and his strong leadership and operations expertise.</p>
<p><b>Krishna C. Saraswat</b>, age 65</p> <p><i>Nominee for reelection</i></p> <p>Nominating and Governance Committee member</p>	<p>Dr. Saraswat has been a director of the Company since June 2012. He has served as the Rickey/Nielsen Professor in the School of Engineering of Stanford University since 2004. He has also served as a Professor of Electrical Engineering and a Professor of Material Science and Engineering at Stanford University since 1983.</p> <p>Dr. Saraswat served on the board of Novellus from February 2011 until its merger with Lam Research in June 2012.</p> <p>Dr. Saraswat received his B.E. degree in Electronics in 1968 from the Birla Institute of Technology and Science, Pilani, India, and his M.S. and Ph.D. degrees in Electrical Engineering in 1969 and 1974, respectively, from Stanford University. At Stanford University he has been engaged in research on new and innovative materials, structures, and process technology of silicon, germanium and III-V devices and interconnects for VLSI and nanoelectronics.</p> <p>The board has concluded that Dr. Saraswat is qualified to serve as a director of the Company because of his diverse and extensive experience in research and development of materials, structures and process technology directly related to our industry; his experience as a professor studying and teaching electrical engineering in those areas; his strong academic credentials, including his recognition as a recipient of numerous awards and his publication of more than 650 technical papers; and his experience as a director of Novellus since 2011.</p>

<b>Board Member Name and Current Board Role(s)</b>	<b>Principal Occupation and Business Experience During Past Five Years</b>
<p><b>William R. Spivey</b>, age 65 <i>Nominee for reelection</i></p> <p>Nominating and Governance Committee member</p>	<p>Dr. Spivey has been a director of the Company since June 2012. From July 2000 to September 2001, he was President and Chief Executive Officer of Luminent, Inc., a producer of fiber optic components. From October 1997 to July 2000, he was Group President, Network Products Group of Lucent Technologies, a producer of world-wide communications products. Previously he held senior executive positions at AT&amp;T Microelectronics, a communications company; Tektronix, Inc., a provider of communications network management and diagnostic solutions; Honeywell; and General Electric.</p> <p>Dr. Spivey serves on the boards of directors of Cascade Microtech, Inc., a developer of precision electrical measurement and test of advanced semiconductor devices, and Raytheon Company, a prime contractor on a broad portfolio of defense and related programs for government customers. He also served on the boards of Novellus from May 1998 until its merger with Lam Research in June 2012; Laird PLC, a global provider of products and technology solutions, from 2002 to 2012; ADC Telecommunications, a supplier of networking products and systems, from 2004 to 2010; Lyondell Chemical Company, from 2000 to 2007; and Luminent, from 2000 to 2001.</p> <p>Dr. Spivey holds a Bachelor of Science degree in Physics from Duquesne University, a Masters degree in Physics from Indiana University of Pennsylvania and a Ph.D. in Management from Walden University.</p> <p>The board has concluded that Dr. Spivey is qualified to serve as a director of the Company because of his managerial experience at several technology companies; his service as a director of multiple public companies; his experience as lead independent director and compensation and nominating and governance committee member; and his service as a director of Novellus since 1998.</p>
<p><b>Abhijit Y. Talwalkar</b>, age 48 <i>Nominee for reelection</i></p> <p>Compensation Committee member</p> <p>Nominating and Governance Committee member</p>	<p>Mr. Talwalkar has been a director of the Company since February 2011. Since 2005, he has been the President and Chief Executive Officer of LSI Corporation, a leading provider of silicon, systems and software technologies for the storage and networking markets. Prior to becoming the LSI President and Chief Executive Officer, Mr. Talwalkar acted in several executive leadership roles at Intel from 1993 to 2005.</p> <p>Mr. Talwalkar also serves on the boards of LSI and the U.S. Semiconductor Industry Association, a semiconductor industry trade association.</p> <p>He has a degree in electrical engineering from Oregon State University.</p> <p>The board has concluded that Mr. Talwalkar is qualified to serve as a director of the Company because of his experience in the semiconductor industry, including as the chief executive officer of a semiconductor company, his leadership roles at other semiconductor companies, and his active role in the semiconductor industry's trade association.</p>

In addition to the biographical information above regarding each director's specific experience, attributes, positions and qualifications, we believe that each of our nominees, while serving as a director and/or officer of the Company, has performed his or her duties with critical attributes such as honesty, integrity, wisdom, and an adherence to high ethical standards. Each nominee has demonstrated strong business acumen, an ability to make independent analytical inquiries, an ability to understand the Company's business environment, and an ability to exercise sound judgment, as well as a commitment to the Company and its core values. We believe the nominees have an appropriate diversity of viewpoints and experiences that will encourage a robust decision-making process for the board.

**SECURITY OWNERSHIP  
OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The table below sets forth the beneficial ownership of shares of Lam’s Common Stock by: (i) each person or entity who the Company believes beneficially owned more than 5% of Lam’s common stock on the date set forth below; (ii) each current director of the Company; (iii) each named executive officer identified below in the “*Compensation Discussion and Analysis*” section; and (iv) all current directors and current executive officers as a group. With the exception of 5% owners, and unless otherwise noted, the information below reflects holdings as of September 7, 2012, which is the Record Date for the 2012 annual meeting and the most recent practicable date for determining ownership. For 5% owners, holdings are as of September 7, 2012, which is the most practicable date for determining their holdings based on their most recent ownership reports filed with the SEC. The percentage of the class owned is calculated using 177,325,100 as the number of shares of Lam’s Common Stock outstanding on September 7, 2012.

Name of Person or Identity of Group	Shares Beneficially Owned <sup>(1)</sup>	Percentage of Class
<b>5% Stockholders</b>		
JP Morgan Asset Management 245 Park Avenue New York, NY 10167-0002	12,142,006	6.8%
The Vanguard Group, Inc. 100 Vanguard Boulevard Malvern, PA 19355	11,453,312	6.5%
AllianceBernstein L.P. 1345 Avenue of the Americas New York, NY 10105	9,709,527	5.5%
<b>Directors</b>		
Martin B. Anstice (also a Named Executive Officer)	65,170	*
James W. Bagley	142,000	*
Robert M. Berdahl	11,570	*
Eric K. Brandt	9,415	*
Michael R. Cannon	4,792	*
Youssef A. El-Mansy	28,818	*
Christine A. Heckart	4,942	*
Grant M. Inman	90,818	*
Catherine P. Lego	33,818	*
Stephen G. Newberry (also a Named Executive Officer)	203,638	*
Kim E. Perdikou	4,942	*
Krishna C. Saraswat	14,476	*
William R. Spivey	50,196	*
Abhijit Y. Talwalkar	4,942	*
Delbert A. Whitaker	24,320	*
<b>Named Executive Officers (“NEOs”)</b>		
Richard A. Gottscho	31,523	*
Ernest E. Maddock	55,088	*
Sarah A. O’Dowd	62,045	*
Mukund Srinivasan	28,382	*
All current directors and executive officers as a group (20 people) <sup>(2)</sup>	1,232,788	*

\* Less than 1%.

(1) Includes shares subject to outstanding stock options that are now exercisable or will become exercisable within 60 days after September 7, 2012, as well as restricted stock units (“RSUs”) that will vest within that time period, as follows:

Martin B. Anstice	29,120
Robert M. Berdahl	3,620
Eric K. Brandt	4,918
Michael R. Cannon	3,620
Youssef A. El-Mansy	1,820
Christine A. Heckart	3,620
Grant M. Inman	3,620
Catherine P. Lego	3,620
Stephen G. Newberry	123,700
Kim E. Perdikou	3,620
Krishna C. Saraswat	1,820
William R. Spivey	1,820
Abhijit Y. Talwalkar	3,620
Delbert A. Whitaker	1,820
Ernest E. Maddock	24,480
Sarah A. O’Dowd	38,658
All current directors and executive officers as a group (20 people) <sup>(2)</sup>	540,371

As discussed in “Director Compensation” below, non-employee directors receive an annual equity grant as part of their compensation. These grants generally vest on November 1, subject to continued service on the board as of that date, but the shares are delivered in the following January. For 2012, Dr. Berdahl; Messrs. Cannon, Inman and Talwalkar; and Mses. Heckart, Lego and Perdikou each received grants of 3,620 RSUs. Drs. El-Mansy, Saraswat and Spivey and Mr. Whitaker each received pro-rated grants of 1,820 RSUs. These RSUs are included in the tables above, although the directors will not actually receive them until January 2013.

(2) In addition to the directors and NEOs, this group includes our chief operating officer, who joined the Company in June 2012.

## CORPORATE GOVERNANCE

Our board of directors and members of management are committed to responsible corporate governance that will ensure that the Company is managed for the long-term benefit of its stockholders. To that end, the board and management periodically review and update, as appropriate, the Company's corporate governance policies and practices. As part of that process, the board and management review the requirements of federal and state law, including rules and regulations of the SEC; the listing standards for the NASDAQ Global Select Market ("NASDAQ"); published guidelines and recommendations of institutional stockholder organizations; and published guidelines of other selected public companies.

### Corporate Governance Policies

We have instituted a variety of policies and procedures to foster and maintain responsible corporate governance, including the following:

*Board committee charters.* Each of the board's standing committees—audit, compensation and nominating and governance committees — has a written charter adopted by the board that establishes practices and procedures for the committee in accordance with applicable corporate governance rules and regulations. Each committee reviews its charter annually and recommends changes to the board, as appropriate. Each committee charter is available on the investors' page of Lam's web site at <http://investor.lamresearch.com>. Please also refer to "Board Committees," below, for a description of responsibilities of these standing committees.

*Corporate governance guidelines.* We adhere to written corporate governance guidelines, adopted by the board and reviewed annually by the nominating and governance committee and the board. Selected provisions of the guidelines are discussed below, including in the "Board Nomination Policies and Procedures," "Director Independence Policies" and "Other Governance Practices" sections below.

*Corporate code of ethics.* We maintain a code of ethics that applies to all employees, officers, and members of the board. The code of ethics establishes standards reasonably necessary to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, and full, fair, accurate, timely, and understandable disclosure in the periodic reports we file with the SEC and in other public communications. We will promptly disclose to the public any amendments to, or waivers from, any provision of the code of ethics, to the extent required by applicable laws. We intend to make this public disclosure by posting the relevant material on our website, to the extent permitted by applicable laws. A copy of the code of ethics is available on the investors' page of Lam's web site at <http://investor.lamresearch.com>.

*Global standards of business conduct policy.* We maintain written standards of appropriate business conduct in a variety of business situations that apply to employees worldwide. Among other things, these global standards of business conduct prohibit employees from engaging in "short sales" of Lam Research securities or from purchasing "put" or "call" options for Lam Research securities (other than through our equity incentive plans or employee stock purchase plans). These measures help to ensure that our employees will not benefit from a decline in Lam's stock price, and will remain focused on our business success.

*Insider trading policy.* Our insider trading policy restricts the trading of Company stock by our directors, officers, and employees, and includes provisions addressing insider blackout periods, margin accounts and hedging transactions.

### Board Nomination Policies and Procedures

*Board membership criteria.* Under our corporate governance guidelines, the nominating and governance committee is responsible for assessing the appropriate balance of experience, skills and characteristics required for the board and for recommending director nominees to the independent directors.

The guidelines direct the committee to consider all factors it considers appropriate. The committee need not consider all of the same factors for every candidate. Factors considered may include, among other things: diversity with respect to any attribute(s) the board considers desirable; experience; business acumen; wisdom; integrity; judgment; the ability to make independent analytical inquiries; the ability to understand the Company's business environment; the candidate's willingness and ability to devote adequate time to board duties; specific skills, background or experience considered necessary or desirable for board or committee service; specific experiences with other businesses or organizations that may be relevant to the Company or its industry; and the interplay of a candidate's experiences and skills with the experiences and skills of other board members.

Prior to recommending that an incumbent non-employee director be nominated for reelection to the board, the committee reviews the experiences, skills and qualifications of the director to assess the continuing relevance of the director's experiences, skills and qualifications to those considered necessary or desirable for the board at that time.

Board members may not serve on more than four boards of public companies (including the Company's board). In addition, board nominees must be under the age of 75 years when nominated. For this reason, Dr. Robert M. Berdahl has not been nominated for reelection at this annual meeting.

*Nomination procedure.* The nominating and governance committee identifies, evaluates and recommends qualified candidates for appointment or election to the board. The committee considers recommendations from a variety of sources, including search firms, board members, executive officers and stockholders. Formal nominations are made by the independent members of the board.

Certain provisions of our bylaws apply to the nomination or recommendation of candidates by a stockholder. Information regarding the nomination procedure is provided in the section above captioned "*Stockholder-Initiated Proposals and Nominations for 2013 Annual Meeting.*"

### **Director Independence Policies**

*Board independence requirements.* Our corporate governance guidelines require that at least a majority of the board members be independent in accordance with NASDAQ rules. No director will qualify as "independent" unless the board affirmatively determines that the director has no relationship that would interfere with the exercise of independent judgment as a director. 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 (and any such director's independence must be reassessed by the full board following such approval).

*Board member independence.* The board has determined that all current directors, other than Messrs. Anstice, Bagley and Newberry, are independent in accordance with NASDAQ criteria for director independence.

*Board committee independence.* All members of the board's three standing committees—the audit, compensation, and nominating and governance committees—must be independent in accordance with applicable NASDAQ criteria as well as, in the case of the compensation committee, applicable rules under section 162(m) of the Internal Revenue Code. See "*Board Committees*" below for a description of the responsibilities of the board's standing committees.

*Lead independent director.* Our corporate governance guidelines authorize the board to designate a lead independent director from among the independent board members. The lead independent director is responsible for coordinating the activities of the independent members of the board, consulting with the chairman regarding matters such as schedules of and agendas for board meetings and the retention of consultants reporting to the board, and developing the agenda for and moderating executive sessions of the board's independent directors. Dr. Berdahl has served as the lead independent director since 2004. The board has designated Grant Inman to serve as lead independent director beginning immediately upon his reelection at this annual meeting.

*Executive sessions of independent directors.* The board and its standing committees hold meetings of the independent directors and committee members, without management present, as part of each regularly scheduled meeting and at any other time at the discretion of the board or committee, as applicable.

*Board access to independent advisors.* The board as a whole, and each of the board standing committees separately, may retain, at the Company's expense, and may terminate, in their discretion, any independent consultants, counselors, or advisors as they deem necessary or appropriate to fulfill their responsibilities.

### **Leadership Structure of the Board**

The current leadership structure of the board consists of a chairman, a vice chairman and a lead independent director. The chairman, Mr. Bagley, and the vice chairman, Mr. Newberry, are former chief executive officers of the Company. As announced on August 30, 2012, Mr. Bagley has decided to retire from the industry, including his position on Lam's board, effective as of this annual meeting. Following the annual meeting, assuming his reelection to the board, Mr. Newberry will serve as chairman, and there will be no vice chairman.

The board believes that this is the appropriate leadership structure at this time. The Company and its stockholders have benefitted from having Messrs. Bagley and Newberry as its chairman and vice chairman, as they have brought to bear their experience with the Company's business and customers in carrying out their responsibilities. The Company will continue to benefit from Mr. Newberry's service as chairman after this annual meeting. The Company and its stockholders also benefit from having a lead independent director to provide independent board leadership.

### **Other Governance Practices**

In addition to the principal policies and procedures described above, we have established a variety of other practices to enhance our corporate governance, including the following:

*Board and committee assessments.* At least bi-annually, the board conducts a review of the functioning of the board and its standing committees.

*Director resignation or notification of change in executive officer status.* Under our corporate governance guidelines, any director who is also an executive officer of the Company must offer to submit his or her resignation as a director to the board if the director ceases to be an executive officer of the Company. The board may accept or decline the offer, in its discretion. The corporate governance guidelines also require a non-employee director to notify the nominating and governance committee if the director changes his or her position at another company. The nominating and governance committee reviews the appropriateness of the director's continued board membership under the circumstances, and the director is expected to act in accordance with the nominating and governance committee's recommendations.

*Director and executive stock ownership.* Under the corporate governance guidelines, each director is expected to own at least 5,000 shares of Lam Research common stock by the later of the fifth anniversary of his or her initial election to the board or November 6, 2012. We also have guidelines for stock ownership by other designated members of the executive management team, which are described under "*Compensation Discussion & Analysis.*"

*Communications with board members.* Any stockholder who wishes to communicate directly with the board of directors, with any board committee or with any individual director regarding the Company may write to the board, the committee or the director c/o Sarah A. O'Dowd, 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 appropriate director(s).

Any stockholder, employee, or other person may communicate any complaint regarding any accounting, internal accounting control, or audit 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 94537-5010. The audit committee has established procedures to ensure that employee complaints or concerns regarding audit or accounting matters will be received and treated anonymously (if the complaint or concern is submitted anonymously) and confidentially.

We expect our directors to attend the annual meeting of stockholders each year and to respond to appropriate questions. All individuals who were directors as of the 2011 annual meeting attended the 2011 annual meeting.

### Meeting Attendance

All of the directors attended at least 75% of the aggregate number of board meetings and meetings of board committees on which they served during their board tenure in fiscal year 2012. Our board of directors held a total of nine meetings during fiscal year 2012.

### Board Committees

The board of directors has three standing committees, all of whose members are independent directors: an audit committee, a compensation committee, and a nominating and governance committee. The purpose, membership and charter of each are described below.

#### Committee Memberships as of June 2012

Name	Audit	Compensation	Nominating and Governance
Robert M. Berdahl			Chair
Eric K. Brandt	x		
Michael R. Cannon		x	x
Youssef A. El-Mansy		x	
Christine A. Heckart		x	
Grant M. Inman		Chair	x
Catherine P. Lego	Chair		
Kim E. Perdikou	x		
Krishna C. Saraswat			x
William R. Spivey			x
Abhijit Y. Talwalkar		x	x
Delbert A. Whitaker	x		

*Audit committee.* The purpose of the audit committee is to oversee the Company's accounting and financial reporting processes and the audits of our financial statements. The audit committee is not, however, responsible for planning or conducting our audits, or determining whether our financial statements are complete and accurate or prepared in accordance with generally accepted accounting principles.

At the end of fiscal year 2012, the audit committee consisted of Messrs. Brandt and Whitaker, and Mses. Lego and Perdikou. Mr. Brandt and Mses. Lego and Perdikou served for the entire fiscal year. Mr. Whitaker

joined the committee in June 2012. The board concluded that all audit committee members are non-employee directors who are independent in accordance with the NASDAQ criteria for audit committee member independence. The board also determined that Ms. Lego, the chair of the committee during fiscal year 2012, is a “financial expert” as defined in SEC rules. The audit committee held nine meetings during fiscal year 2012.

The audit committee’s responsibilities include (but are not limited to) the following:

- Appoint and provide for the compensation for the Company’s independent registered public accounting firm (the “Accounting Firm”), and approve, in accordance with and in a manner consistent with the laws, rules and regulations applicable to the Company, all professional services to be provided to Lam Research by the Accounting Firm
- Oversee the work, and evaluate the performance, of the Accounting Firm
- Meet with management and the Accounting Firm to discuss the annual financial statements and the Accounting Firm’s report on them prior to the filing of the Company’s Form 10-K with the SEC, and to discuss the adequacy of internal control over financial reporting
- Meet quarterly with management and the Accounting Firm to discuss the quarterly financial statements prior to the filing of the Company’s Form 10-Q with the SEC
- At least annually, review and reassess the internal audit charter and, if appropriate, recommend proposed changes
- Review the scope, results and analysis of internal audits (if any)
- Review and approve all related-party transactions
- Establish a procedure for receipt, retention and treatment of any complaints received by the Company about its accounting, internal accounting controls or auditing matters, and for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters
- Review and monitor the Company’s investment policy and performance and associated risks, including but not limited to annual review and recommendation to the full board of management’s treasury strategy committee charter

*Compensation committee.* The purpose of the compensation committee is to discharge certain responsibilities of the board relating to executive compensation, to oversee incentive, equity-based and other compensatory plans in which the Company’s executive officers and directors participate and to produce an annual report on executive compensation for inclusion as required in the Company’s proxy statement.

At the end of fiscal year 2012, the compensation committee consisted of Dr. El-Mansy, Messrs. Cannon, Inman and Talwalkar and Ms. Heckart. Dr. El-Mansy joined the committee in June 2012, and the other members served for the entire fiscal year. Dr. Berdahl served on the committee until February 2012. The board concluded that all members of the compensation committee are non-employee directors who are independent in accordance with the NASDAQ criteria for director independence and who are outside directors for purposes of section 162(m) of the Internal Revenue Code as amended. The compensation committee held six meetings during fiscal year 2012.

The compensation committee’s responsibilities include (but are not limited to) the following:

- Establish and review corporate goals and objectives as relevant to the chief executive officer, the chairman and the vice chairman, evaluate their performance in light of these goals and objectives and based on this evaluation recommend the chief executive officer’s, the chairman’s and the vice chairman’s compensation packages and payouts for approval by the independent members of the board
- Determine compensation packages, targets, and payouts for other executive officers
- Establish and administer stock ownership guidelines applicable to executive officers

- Review and recommend to the board for final approval all cash, equity-based or other compensation arrangements applicable to the independent members of the board
- Review and approve, subject to stockholder or board approval as required, the creation or amendment of any equity-based compensatory plans and other compensatory plans as the board designates, and administer such plans
- Oversee management's determination as to whether the Company's compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the Company
- Recommend to the board the frequency of "say-on-pay" votes, review the results of "say-on-pay" votes, and consider whether any adjustments to the Company's executive compensation program are appropriate as a result of such votes

*Nominating and governance committee.* The purpose of the nominating and governance committee is to identify individuals qualified to serve as members of the board of the Company, to recommend nominees for election as directors of the Company, to conduct evaluations of the board's performance, to develop and recommend corporate governance guidelines to the board, and to provide oversight with respect to corporate governance and ethical conduct.

At the end of fiscal year 2012, the nominating and governance committee consisted of Drs. Berdahl, Saraswat and Spivey and Messrs. Inman and Talwalkar. The board concluded that all nominating and governance committee members are non-employee directors who are independent in accordance with the NASDAQ criteria for director independence. The nominating and governance committee held four meetings during fiscal year 2012.

The nominating and governance committee's responsibilities include (but are not limited to) the following:

- Identify, screen, evaluate, and recommend to the independent members of the board 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, screen, evaluate and recommend to the board individuals to fill any vacancies or newly created directorships that may occur between meetings
- Make recommendations to the board annually after consultation with the chairman of the board and the lead independent director, if any, with respect to assignment of board members to committees and as committee chairs
- 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
- Conduct from time to time an assessment 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

The nominating and governance committee recommended the slate of nominees for director set forth in Proposal No. 1. The independent members of the board approved the recommendations and nominated the proposed slate of nominees.

The nominating and governance committee will consider for nomination persons properly nominated by stockholders in accordance with the Company's bylaws and other procedures described above in the section captioned "*Stockholder - Initiated Proposals and Nominations for 2013 Annual Meeting.*" Subject to then-applicable law, stockholder nominations for director will be evaluated by the Company's nominating and governance committee in accordance with the same criteria as are applied to candidates identified by the nominating and governance committee or other sources.

### **Board's Role in Risk Oversight**

The board of directors has oversight responsibility with respect to the Company's risk management activities. Examples of risks facing the Company include, but are not limited to, integration of Novellus and industry business cycles. For further discussion of the risks we face, see our Annual Report on Form 10-K.

The board provides risk oversight by: (1) understanding and assessing the Company's risk management processes; (2) understanding the Company's strategic goals and objectives and assessing how they may be affected by material risk exposures; and (3) receiving regular reports from management on various types of risks and management's processes for managing such risks.

The board has delegated oversight responsibility for certain areas of risk exposure to its standing committees.

- The audit committee oversees risk management activities relating to the Company's accounting and financial reporting, internal controls, and the auditing of the Company's annual financial statements. The audit committee also oversees the Company's independent registered public accounting firm and the Company's internal audit function. The audit committee meets privately with the Company's independent registered public accounting firm at least quarterly.
- The compensation committee oversees risk management activities relating to the design of equity, executive and board level compensation policies and plans. The compensation committee works with an independent compensation consultant and meets privately with that consultant as appropriate.

### **Assessment of Compensation Risk**

Management conducted a compensation risk assessment in 2012 and concluded that the Company's current compensation programs are not reasonably likely to have a material adverse effect on the Company's business.

## DIRECTOR COMPENSATION

Board members who are also employees do not receive any additional compensation for service on the board. The compensation of our non-employee directors is reviewed and determined annually by the board, upon recommendation from the compensation committee. Committee chairs, the lead independent director and committee members receive cash retainers. The board endeavors to maintain forms and amounts of director compensation that will attract and retain directors of the caliber desired by the Company and that align director interests with those of stockholders.

Our director compensation plans run on a calendar-year basis. However, SEC rules require us to report compensation in this proxy statement on a fiscal-year basis. The second half of calendar year 2011 and the first half of calendar year 2012 comprised fiscal year 2012. The types and rates of cash compensation are included in the table below. For directors who served for all of the fiscal year, the fiscal year 2012 compensation rate is the sum of the applicable portions of the two calendar year amounts. For directors who joined the board or a committee during the fiscal year, the fiscal year 2012 compensation is pro-rated.

	Calendar Year 2011	Calendar Year 2012	Fiscal Year 2012
Annual Retainer . . . . .	\$50,000	\$60,000	\$55,000
Lead Independent Director . . . . .	\$12,500	\$15,000	\$13,750
Audit Committee – Chair . . . . .	\$20,000	\$25,000	\$22,500
Audit Committee – Member . . . . .	*	\$12,500	\$ 6,250
Compensation Committee – Chair . . . . .	\$15,000	\$20,000	\$17,500
Compensation Committee – Member . . . . .	*	\$10,000	\$ 5,000
Nominating and Governance Committee – Chair . . . . .	*	\$10,000	\$ 5,000
Nominating and Governance Committee – Member . . . . .	*	\$ 5,000	\$ 2,500

\* *In calendar year 2011, the lead independent director received a single fee for his service both as lead independent director and as chair of the nominating and governance committee. Separate fees for committee service were not paid in calendar year 2011.*

New non-employee directors are generally eligible to receive an initial equity grant in the form of RSUs, upon the date of the first regularly scheduled board meeting attended by that director after first being appointed or elected to the board, with a targeted grant date value equal to \$250,000 (the number of RSUs subject to the award is determined by dividing \$250,000 by the fair market value of a share of Company common stock as of the date of grant, rounded down to the nearest ten shares). The initial RSUs vest in four equal annual installments from the date of grant subject to the director's continued service on the board. These equity grants are subject to the terms and conditions of the Company's 2007 Stock Incentive Plan and the applicable grant award agreements.

Each non-employee director is eligible to receive an annual equity grant on a designated date in January of each year (or, if the designated date falls within a blackout window under applicable Company policies, on the first business day such grant is permissible under those policies) with a targeted grant date value equal to \$160,000 (the number of RSUs subject to the award is determined by dividing \$160,000 by the fair market value of a share of Company common stock as of the date of grant, rounded down to the nearest ten shares). Those grants generally vest on November 1 in the year of grant.

Each non-employee director who was on the board on February 3, 2012 received a grant of 3,620 RSUs for services during calendar year 2012. Each RSU grant issued in February 2012 vests in full on November 1, 2012, generally subject to the director's continued service on the board. Receipt of the shares is deferred until January 25, 2013.

Drs. El-Mansy, Saraswat and Spivey and Mr. Whitaker were not deemed "new directors" in light of their transition to the Company's board from the Novellus board following the Company's acquisition of Novellus, which was completed in June 2012. Accordingly, they were given pro-rated annual board and committee fees and pro-rated annual equity grants of 1,820 RSUs. As with the other annual grants, these grants vest in full on November 1, 2012, subject to their service on the board on that date. The following table shows cash and equity compensation for fiscal year 2012 for directors other than Messrs. Anstice and Newberry, whose compensation is described below under "*Compensation Discussion and Analysis*":

### Director Compensation for Fiscal Year 2012

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)</sup>	All Other Compensation (\$) <sup>(2)</sup>	Total
James W. Bagley	\$415,000 <sup>(5)</sup>	\$ 0	\$16,577	\$431,577
David G. Arscott	\$ 25,000 <sup>(6)</sup>	\$ 0	\$ 0	\$ 25,000
Robert M. Berdahl	\$ 73,750 <sup>(7)</sup>	\$159,968 <sup>(3)</sup>	\$14,712	\$248,430
Eric K. Brandt	\$ 61,250 <sup>(8)</sup>	\$159,968 <sup>(3)</sup>	\$ 0	\$221,218
Michael R. Cannon	\$ 62,500 <sup>(9)</sup>	\$159,968 <sup>(3)</sup>	\$ 0	\$222,468
Youssef A. El-Mansy	\$ 3,644 <sup>(10)</sup>	\$ 65,502 <sup>(4)</sup>	\$ 1,278	\$ 70,424
Christine A. Heckart	\$ 47,500 <sup>(11)</sup>	\$159,968 <sup>(3)</sup>	\$ 0	\$207,468
Grant M. Inman	\$ 75,000 <sup>(12)</sup>	\$159,968 <sup>(3)</sup>	\$14,712	\$249,680
Catherine P. Lego	\$ 77,500 <sup>(13)</sup>	\$159,968 <sup>(3)</sup>	\$ 6,486	\$243,954
Kim E. Perdikou	\$ 48,750 <sup>(14)</sup>	\$159,968 <sup>(3)</sup>	\$ 7,670	\$216,388
Krishna C. Saraswat	\$ 3,384 <sup>(15)</sup>	\$ 65,502 <sup>(4)</sup>	\$ 0	\$ 68,886
William R. Spivey	\$ 3,384 <sup>(16)</sup>	\$ 65,502 <sup>(4)</sup>	\$ 1,278	\$ 70,164
Abhijit Y. Talwalkar	\$ 48,750 <sup>(17)</sup>	\$159,968 <sup>(3)</sup>	\$ 0	\$208,718
Delbert A. Whitaker	\$ 3,774 <sup>(18)</sup>	\$ 65,502 <sup>(4)</sup>	\$ 0	\$ 69,276

- (1) The amounts shown in this column represent the grant date fair value of unvested restricted stock unit awards granted during fiscal year 2012 in accordance with Accounting Standards Codification 718, *Compensation — Stock Compensation* ("ASC 718"). However, pursuant to SEC rules, these values are not reduced by an estimate for the probability of forfeiture. The assumptions used to calculate the fair value of the restricted stock units in fiscal year 2012 are set forth in Note 11 in the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended June 24, 2012.
- (2) Represents the portion of medical, dental and vision premiums paid by the Company. For Mr. Bagley, also includes \$7,602 in company matching contributions to the 401(k) plan.
- (3) On February 3, 2012, each non-employee director who was on the board received an annual grant of 3,620 restricted stock units based on the \$44.19 closing price of the Company's common stock and the target value of \$160,000, rounded down to the nearest ten shares.
- (4) On June 4, 2012, Drs. El-Mansy, Saraswat and Spivey and Mr. Whitaker each received a pro-rated annual grant of 1,820 restricted stock units based on the \$35.99 closing price of the Company's common stock and the target value of \$65,753, rounded down to the nearest ten shares. The proration was based on the number of days from June 4, 2012 through October 31, 2012.
- (5) Mr. Bagley received \$415,000, representing his annual fee. As explained below, his compensation is based on his positions as an employee of the Company and chairman of the board.
- (6) Mr. Arscott served on the board through November 3, 2011. He received \$25,000, representing the fiscal year 2012 portion of his calendar year 2011 annual retainer.

- (7) Dr. Berdahl received \$55,000, representing his annual retainer; \$13,750 as lead independent director; and \$5,000 as chair of the nominating and governance committee.
- (8) Mr. Brandt received \$55,000, representing his annual retainer; and \$6,250 as a member of the audit committee.
- (9) Mr. Cannon received \$55,000, representing his annual retainer; \$5,000 as a member of the compensation committee; and \$2,500 as a member of the nominating and governance committee.
- (10) Dr. El-Mansy received \$3,124, representing his annual retainer; and \$520 as a member of the compensation committee.
- (11) Ms. Heckart received \$42,500, representing her annual retainer; and \$5,000 as a member of the compensation committee.
- (12) Mr. Inman received \$55,000, representing his annual retainer; \$17,500 as chair of the compensation committee; and \$2,500 as a member of the nominating and governance committee.
- (13) Ms. Lego received \$55,000, representing her annual retainer; and \$22,500 as chair of the audit committee.
- (14) Ms. Perdikou received \$42,500, representing her annual retainer; and \$6,250 as a member of the audit committee.
- (15) Dr. Saraswat received \$3,124, representing his annual retainer; and \$260 as a member of the nominating and governance committee.
- (16) Dr. Spivey received \$3,124, representing his annual retainer; and \$260 as a member of the nominating and governance committee.
- (17) Mr. Talwalkar received \$42,500, representing his annual retainer; \$5,000 as a member of the compensation committee; and \$1,250 as a member of the nominating and governance committee.
- (18) Mr. Whitaker received \$3,124, representing his annual retainer; and \$650 as a member of the audit committee.

Mr. Bagley has had a different compensation arrangement than the other directors due to his position as an employee of the Company. Mr. Bagley's compensation was approved by the independent members of the board upon recommendation from the compensation committee. Mr. Bagley had an employment contract that expired March 31, 2012, and he continued as an employee of the Company. He received \$415,000 during the fiscal year. Mr. Bagley does not receive additional compensation for his role as a member of the board; he is not eligible for any performance bonus program offered by the Company; and he is not entitled to any equity awards other than those equity awards granted to him in the discretion of the independent members of the board. Mr. Bagley is eligible to participate in the Company's Elective Deferred Compensation Program and medical, dental and insurance benefit programs maintained by the Company that are generally applicable to executives of the Company, subject to the general terms and conditions of the programs.

In addition, members of the board who have retired from the board can participate in the Company's Executive Retirement Medical and Dental Plan if they meet certain eligibility requirements. The most recent valuation of the Company's accumulated post-retirement benefit obligation under Accounting Standards Codification 715, *Compensation-Retirement Benefits* ("ASC 715"), as of June 2012, for eligible former directors and the current and former directors who may become eligible is shown below. Factors affecting the amount of post-retirement benefit obligation include age at enrollment, age at retirement, coverage tier (e.g., single, plus spouse, plus family), interest rate, and length of service.

Name	Accumulated Post-Retirement Benefit Obligation, as of June 2012
James W. Bagley .....	\$260,000
David G. Arscott .....	\$311,000
Robert M. Berdahl .....	\$236,000
Eric K. Brandt .....	\$122,000
Michael R. Cannon .....	\$ 93,000
Youssef A. El-Mansy .....	\$ 0
Christine A. Heckart .....	\$ 43,000
Grant M. Inman .....	\$285,000
Catherine P. Lego .....	\$407,000
Kim E. Perdikou .....	\$ 94,000
Krishna C. Saraswat .....	\$ 0
William R. Spivey .....	\$ 0
Abhijit Y. Talwalkar .....	\$ 70,000
Delbert A. Whitaker .....	\$ 0

#### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers, directors, and people who own more than 10% of a registered class of our equity securities to file an initial report of ownership (on a Form 3) and reports on subsequent changes in ownership (on Forms 4 or 5) with the SEC by specified due dates. Our executive officers, directors, and greater-than-10% stockholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms they file. We are required to disclose in this proxy statement any failure to file any of these reports on a timely basis. Based solely on our review of the copies of the forms that we received from the filers, and on written representations from certain reporting persons, we believe that all of these requirements were satisfied during fiscal year 2012, with the exception of a filing by Timothy M. Archer on June 7, 2012 to report the acquisition of 150,195 shares of Lam Research common stock and stock options to acquire 415,688 shares of Lam Research common stock received by Mr. Archer in exchange for 133,507 shares of Novellus and stock options to acquire 369,500 shares of Novellus in connection with the merger of BLMS Inc., a wholly owned subsidiary of Lam Research, with and into, pursuant to the terms of the Agreement and Plan of Merger by and among BLMS Inc., Lam Research and Novellus, dated December 14, 2011.



**EXECUTIVE COMPENSATION AND OTHER INFORMATION**  
**COMPENSATION DISCUSSION AND ANALYSIS**

This Compensation Discussion and Analysis (“CD&A”) describes the Company’s executive compensation program. It is organized as follows: In section I we provide an executive summary of our compensation program. In section II we discuss our philosophy and objectives regarding the program and its various components. In section III we describe executive compensation governance and procedures. In section IV we analyze how and why the compensation committee of our board of directors arrived at specific compensation decisions for our executive officers in fiscal year 2012 relating to payouts for completed performance periods and targets and goals for future periods, and we describe the financial, strategic and operational performance factors that guided those compensation decisions.<sup>1</sup> Finally, section V addresses tax and accounting considerations related to compensation matters.

Our CD&A discusses compensation earned by our “Named Executive Officers,” or NEOs, who are our chief executive officer, our chief financial officer, three other highly compensated executives, as described under SEC rules, and our vice chairman who served as Chief Executive Officer (“CEO”) for a portion of the fiscal year. Our NEOs for fiscal year 2012 are as follows:

Name	Position(s) Held During Fiscal Year 2012
Martin B. Anstice	President and Chief Executive Officer beginning January 2012 President and Chief Operating Officer through December 2011
Ernest E. Maddock	Senior Vice President and Chief Financial Officer
Richard A. Gottscho	Senior Vice President, Global Products
Sarah A. O’Dowd	Group Vice President, Chief Legal Officer
Mukund Srinivasan <sup>2</sup>	Vice President and General Manager, Clean Business
Stephen G. Newberry	Vice Chairman beginning January 2012 Vice Chairman and Chief Executive Officer through December 2011

*Figure 1. Fiscal Year 2012 NEO Positions.*

**I. EXECUTIVE SUMMARY**

Our compensation philosophy is to pay for performance that creates stockholder value over the long term while delivering exceptional performance throughout fluctuating business cycles. Accordingly, compensation for the Company’s NEOs is weighted toward incentive compensation that is tied to the achievement of business objectives. Compensation is reduced when objectives are not realized, and compensation is increased when objectives are exceeded.

<sup>1</sup> For purposes of this CD&A, a reference to a compensation action or decision by the committee with respect to the NEOs means an action or decision by the compensation committee and, in the case of our vice chairman and chief executive officer, an action or decision by the independent members of our board of directors.

<sup>2</sup> Dr. Srinivasan is the vice president and general manager of our clean business group. At the start of fiscal year 2011, this position was considered an “executive officer” position as defined by SEC Rule 3b-7. Due to corporate reorganization, at the end of fiscal year 2012, the position of product group general manager was no longer considered to meet this definition. Accordingly, information regarding Dr. Srinivasan’s fiscal year 2012 compensation is disclosed pursuant to SEC Regulation S-K Item 402(a)(3); forward looking information regarding his fiscal year 2012 compensation is not disclosed in this CD&A.

To understand our executive compensation program fully, we feel it is important to understand the following:

- Our business and our fiscal year 2012 financial performance;
- The extreme volatility over the past several years of the semiconductor equipment industry;
- The calendar year orientation of our executive compensation program and management system while the Company maintains a fiscal year ending in June; and
- Our compensation philosophy and program design, which reward executives for performance and for creating shareholder value throughout fluctuating business cycles, and foster retention.

### **Our Business and Our Fiscal Year 2012 Financial Performance**

Lam Research has been a leading supplier of wafer fabrication equipment and services for more than thirty years by contributing to the advancement of semiconductor manufacturing processes. These processes have in turn led to the proliferation of a variety of electronic products that impact our everyday lives, including cell phones, computers, memory, and networking equipment. Lam acquired Novellus Systems, Inc. (“Novellus”) on June 4, 2012. As a result of the Novellus acquisition, we believe Lam is now better positioned to serve our customer base by leveraging our technical expertise across a broader portfolio of products to address the increasingly complex business of manufacturing integrated circuits.

Revenues declined in fiscal year 2012 as semiconductor device manufacturers slowed the pace of their capacity expansions in response to weaker macroeconomic conditions impacting demand for certain semiconductor devices. Throughout the fiscal year, we continued to make strategic investments focused on leading-edge plasma etch, single-wafer clean and other semiconductor manufacturing requirements to support future growth opportunities. The resulting decrease in operating income is reflected in our fiscal year 2012 financials. For further discussion of our fiscal year 2012 results and the effect on those results of consolidating reporting with Novellus, see our Annual Report on Form 10-K.

**Volatility of the Semiconductor Equipment Industry**

The semiconductor capital equipment industry is highly competitive and subject to business cycles that historically have been characterized by rapid changes in demand that necessitate adjusting spending and managing capital allocation prudently across business cycles. The graph below (Figure 2) shows year-over-year changes in revenue growth for the electronics industry, the semiconductor industry, and the wafer fabrication equipment segment of the semiconductor equipment industry from 1998 to the present. The semiconductor industry is considered to be a highly cyclical industry, with fluctuations responding to changes in the demand for semiconductor devices. The graph illustrates the more extreme volatility of the semiconductor equipment industry, and in particular the wafer fabrication equipment segment of that industry in which we participate, during these demand cycles. We have responded to this extreme volatility with a flexible business model that enables our operations team to adjust quickly to these rapid changes in demand while effectively managing costs. Our compensation program is designed to incorporate this same flexibility. See section IV for more explanation of this plan design.

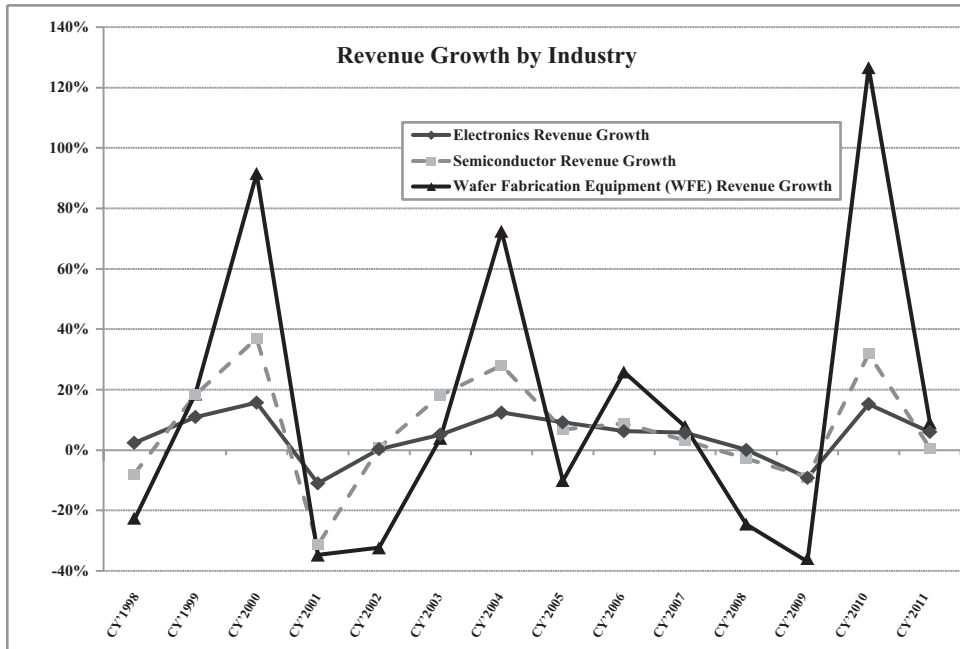


Figure 2. Revenue Growth by Industry, 1998-2011.  
Sources: SEMI; World Semiconductor Trade Statistics, Inc. (WSTS); Gartner, Inc.; Lam Research Corporation

**Although We Are a June Fiscal Year End Company, Our Executive Compensation Program is Calendar Year-Oriented**

Our executive compensation program is designed and evaluated on a calendar year basis, rather than on a fiscal year basis, to correspond with our annual calendar year-based business planning and compensation cycles. Therefore, this CD&A reflects a calendar-year orientation, as shown in Figure 3 below. The Executive Compensation Tables at the end of this CD&A are based on the 2012 fiscal year, as required by SEC regulations. The numbers in this CD&A reflect decisions made by the committee relating to goals and payouts for a calendar year and do not correspond directly to the fiscal year 2012 numbers in the Executive Compensation Tables.

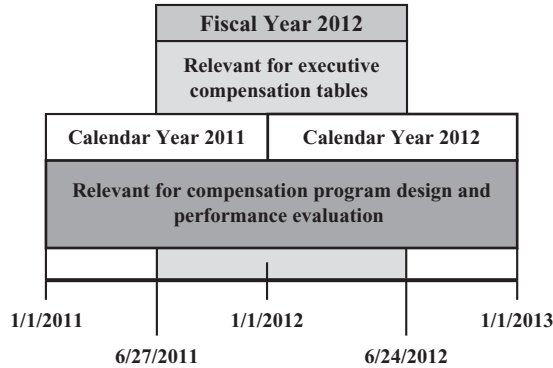
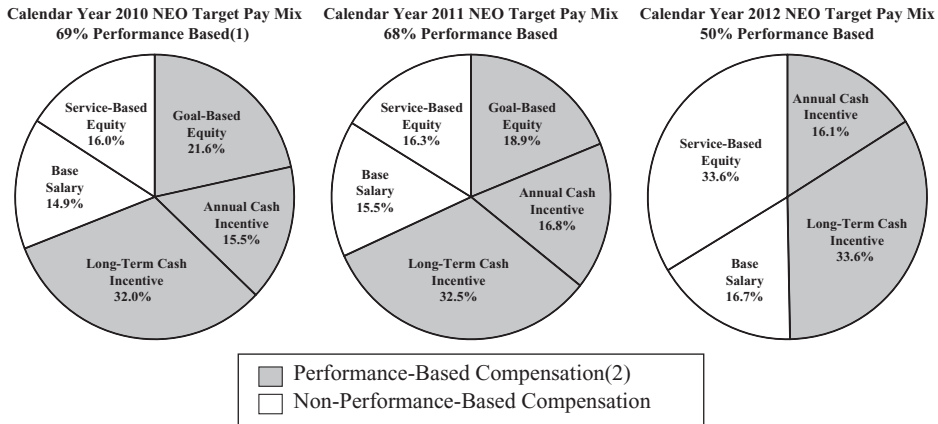


Figure 3. Executive Compensation Calendar Year Orientation.

**Our Executive Compensation Philosophy and Program Design are Performance Based, Rewarding Executives for Exceptional Performance Throughout Fluctuating Business Cycles and for Creating Stockholder Value, and Fostering Retention**

As illustrated in Figure 4 below, the primary components of our executive compensation program are heavily weighted towards driving superior performance elements and stockholder value throughout fluctuating business cycles. The pay component mix changed in 2012 due to the timing of the Novellus merger, as further explained under “Say on Pay Voting Results; Program Changes” below.



- (1) Data in Figure 4 for the 2010 and 2011 charts is for the then-applicable NEOs (i.e., fiscal year 2010 NEOs are represented in the calendar year 2010 chart, etc.). Mr. Newberry and Dr. Srinivasan are not included in the calendar year 2012 chart.
- (2) For purposes of this illustration, we include goal-based RSUs as performance based, but do not classify service-based RSUs as performance based.

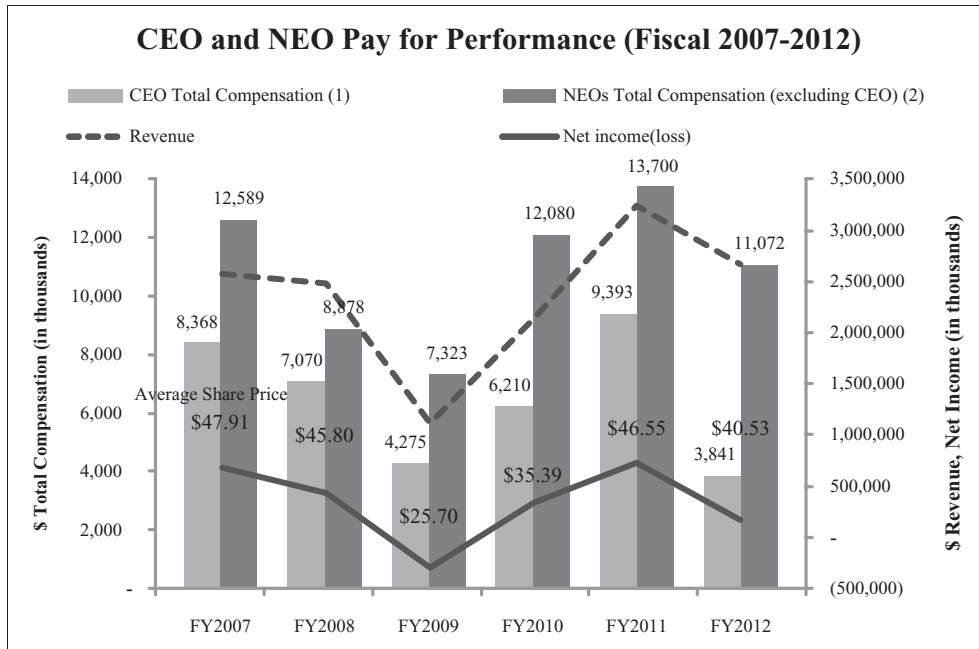
Figure 4. Executive Compensation Target Pay Mix.

Our program design specifically drives exceptional performance throughout fluctuating business cycles, motivates stockholder value creation, and fosters retention by:

- Incorporating multiple performance-based metrics that represent superior business performance for the benefit of our stockholders;
- Tying compensation directly to stockholder returns by including a stock price factor in the cash-based portion of our long-term compensation program, which represents 50% of that program, and by delivering the remaining 50% in equity;
- Setting objectives on an annual or semiannual basis, adjusting them upward or downward in growing or declining business environments in order to maintain stretch objectives under all business conditions;
- Deferring payments under our long-term compensation program until completion of a two-year period. That is, there is no annual vesting, and employment until completion of the two-year period is required to receive any payouts under the long-term program;
- Operating the cash program so that we can record compensation expense in the period in which the metric (usually non-GAAP operating income) is realized rather than on an estimated basis over the life of the program, so that compensation expense is greater in periods when non-GAAP operating income is higher, and lower in periods when non-GAAP operating income is lower;
- Setting executive stock ownership guidelines, described in section II below, to foster creation of stockholder value over the long term.

Our programs also include features that protect our stockholders against unreasonable compensation expense and/or dilution. For example, both our annual and our long-term cash incentive programs incorporate caps on individual and aggregate awards. In addition, 50% of our long-term compensation is delivered in cash, limiting the dilution associated with all-equity programs, and our long-term equity program awards are dollar based rather than share based, preventing the issuance of excessive value in times of relatively high stock prices. Our philosophy and design are more fully described in sections II and IV.

As illustrated in Figure 5 below, we believe that our compensation programs and decisions have served to link pay to operational and stock price performance over the past several years. As shown, total compensation awards have tracked changes in our revenue, operating income, and stock price performance over that period. Thus, in fiscal years 2010 and 2011, when revenue, operating income and stock price all rose, executive pay increased, and when those factors declined in 2008, 2009 and 2012, so did executive pay. Over the past several years, average amounts earned by our NEOs under our annual cash incentive program have averaged from 39% of target for calendar year 2008 to 166% of target for calendar year 2010, and under our long-term cash incentive program they have averaged from 59% of target in 2008/2009 to 250% in 2006/2007, with the lower payouts responding to the difficult semiconductor equipment environment during the global recession and higher payouts responding to semiconductor industry demand growth.



- (1) “CEO Total Compensation” and “NEOs Total Compensation (excluding CEO)” consist of base salary, annual incentive payments, accrued values of the cash payments under the long-term incentive plan and grant date fair values of equity based awards under the long-term incentive plan, and all other compensation as reported in the Summary Compensation Table below. “Average Share Price,” shown as dollar figures superimposed on the bar chart, is equal to the average closing price for all trading days during the fiscal year.
- (2) All years had five NEOs except fiscal years 2010 and 2012, which had six. Mr. Anstice’s total compensation for the year (which represents six months as COO and six months as CEO) is shown in the CEO bar; Mr. Newberry’s compensation (which represents six months as CEO and six months as vice chair) was lower, as shown in the Summary Compensation Table at the end of this CD&A, and is included with the other NEOs.

Figure 5. CEO and NEO Pay for Performance (Fiscal Years 2007-2012).

### 2011 Say on Pay Voting Results; Program Changes

In 2011, our stockholders voted to approve our 2011 advisory vote on executive compensation, with 80.46% of the votes cast in favor of the advisory proposal. No significant design changes were made to the executive compensation program following the 2011 stockholder “say on pay” vote or otherwise during fiscal year 2012. However, we have continued our efforts to improve our disclosure, and in particular to simplify the description of our executive compensation.

We also deviated from our typical long-term program design in 2012 as a result of the merger with Novellus Systems, Inc. The merger had been announced, but had not been concluded, when compensation decisions were made in February 2012 and, as a result, management did not set long-term goals for the combined organization at that time, making it difficult for the committee to set appropriate performance goals under the long-term compensation plan. For this reason, and to aid retention during the integration period, the long-term equity plan for the 2012/2013 performance period was modified to include only service-based equity.

## II. PHILOSOPHY, OBJECTIVES AND PROGRAM COMPONENTS

### Philosophy

The executive compensation philosophy articulated by the committee in February 2012 is as follows: Pay for performance while creating stockholder value over the long term and delivering exceptional performance throughout fluctuating business cycles. We explain how our executive compensation program is designed to deliver on these elements below.

- *Pay for performance.* Our executive compensation program is designed and implemented to link pay to performance by rewarding executives for achieving financial, strategic and operational objectives. As illustrated in Figure 4 (see section I), historically under our program design, approximately 68% of our target executive compensation has been performance based, and as illustrated in Figure 5 (see section I) our compensation payouts have tracked our revenue and net income. We focus our executives on the attainment of business performance objectives because we believe this approach best serves the long-term interests of our stockholders. We include a variety of performance metrics in our annual and long-term programs. For example, for calendar year 2012, business metrics included non-GAAP operating income, cash from operations, clean and etch product market share, and organizational performance, as more fully discussed in section IV below. We use non-GAAP metrics for operating income and cash from operations because we believe non-GAAP measures better reflect the operating performance of the Company, and their use avoids rewarding or penalizing our executive team for nonrecurring and non-operating results.<sup>3</sup>
- *Create stockholder value over the long term.* Our executive compensation program is designed and implemented to create stockholder value over the long term. We believe that the best way to create such value is to focus our executives on achieving outstanding business results. We believe that over time, outstanding business results create stockholder value. We also believe that our executives' compensation should be directly tied to the welfare of our stockholders. We have therefore designed the long-term program to include both cash and equity components that foster stockholder value creation. The cash portion, which is 50% of the total long-term award, builds stockholder value in several ways. First, paying in cash rather than equity reduces dilution for our stockholders. Second, while paid in cash, there also is a specific stock price-related factor in the program that serves to align the interests of participants with those of stockholders. Third, the program has been designed so that we can record compensation expense in the period in which the metric (usually non-GAAP operating income) is realized, rather than on an estimated basis over the life of the program. That means that compensation expense is greater in periods when non-GAAP operating income is higher, and lower in

<sup>3</sup> Non-GAAP results are designed to provide information about performance without the impact of certain non-recurring and other non-operating line items. Non-GAAP operating income and non-GAAP cash from operations are derived from GAAP results, with charges and credits in the following line items excluded from non-GAAP results during applicable quarters during fiscal years 2012 and 2011: restructuring and impairment charges and benefits; acquisition-related and integration-related costs; certain costs associated with a customer bankruptcy filing; costs associated with rationalization of certain product configurations; amortization related to intangible assets acquired in the Novellus transaction; impairment of investment; acquisition-related inventory fair value impact; amortization of convertible note discount; net tax benefit of research and development credits; tax expense associated with legal entity restructuring; and the tax effects related to these line items. Non-GAAP cash from operations is derived from GAAP cash from operations, with adjustments to non-GAAP net income, receivables, and inventory.

periods when non-GAAP operating income is lower. We believe that this ability to match compensation expense recognition to the period in which non-GAAP operating income is earned enhances stockholder value creation throughout fluctuating business cycles. The other half of our long-term program is delivered in equity which directly aligns management and stockholder interests for stock appreciation. The cash and equity portions of our long-term incentive program are described in section IV. The Company's executive stock ownership guidelines, described below, also foster creation of stockholder value over the long term.

- Motivate exceptional performance throughout fluctuating business cycles. Our executive compensation program is designed and implemented to deliver exceptional strategic, financial and operational results throughout the extreme fluctuations in our business cycles (See Figure 2 in section I for an illustration of the volatility in our industry.) Because business cycles in our industry can change rapidly, our programs authorize the compensation committee to evaluate key corporate performance metrics every six months to reflect changes in the business environment. Under this principle of flexibility, changes may be made in either direction, depending upon the business environment, so that metrics are made more difficult as the business improves and more realistic as the business declines. In all cases, metrics are set as stretch goals. In difficult business environments or in situations where management has elected to make extraordinary investments in the future, metrics are set so that achievement of target awards requires performance exceeding actual corporate plans. Consistent with this principle of flexibility, our executive compensation plans also allow us to use equity in a flexible manner, with different types and timing of awards (service-based RSUs, stock options and performance-based RSUs) available to attract, motivate and retain executives in different business environments.

## Compensation Objectives

Within the framework of our compensation philosophy, we have designed and operated our executive compensation programs to achieve the following objectives:

- Attract and retain exceptionally talented executives. In order to attract and retain executives who can deliver the exceptional levels of performance required for our business to succeed, we offer target compensation that is competitive with that of similarly positioned, high-performing executives at companies with which we compete for talent. We also promote retention by including compensation elements that are contingent on long-term service to the Company, including the two-year cliff vesting cycle of our long-term incentive program.
- Motivate executives. Our compensation arrangements are designed to motivate executives by enabling them to earn rewards above target levels for above target corporate and individual performance.
- Match performance-based compensation expenses to the periods in which the performance occurs. Since our industry is subject to rapid changes in demand that require us to have a flexible business structure, we reset goals on an annual and six-month basis to respond to those changes. The cash program that is part of our long-term incentive program allows us to match performance-based compensation expenses to the periods in which the performance occurs, to assist management in adjusting to these rapid changes while effectively managing costs.
- Maintain cost-effectiveness. To the extent practical, we structure our compensation programs to be cost-effective to the Company and its stockholders. We consider the tax deductibility of compensation expenses for the Company, and we carefully monitor the dilutive impact of equity compensation awards. As noted above, we also set ceilings on performance-based awards to ensure that actual compensation is not unreasonably high in relation to target compensation during periods of exceptionally strong performance.
- Protect stockholder interests from unreasonable compensation expense and/or dilution. Our programs also include features that protect our stockholders against unreasonable compensation expense and/or dilution. For example, both our annual and our long-term cash incentive programs incorporate caps on individual and aggregate awards. In addition, 50% of our long-term compensation is delivered in cash,



limiting the dilution associated with all-equity programs, and our long-term equity program awards are dollar based rather than share based, preventing the issuance of excessive value in times of relatively high stock prices.

### Stock Ownership Guidelines

We have stock ownership guidelines for our executive officers, as shown in Figure 6 below, that serve to further align executives' interests with those of our stockholders. The requirements are specified in the alternative of shares or dollars to allow for stock price volatility. Ownership levels as shown below must be achieved within five years of appointment as an executive officer; and increased requirements due to promotions must be achieved within three years of promotion. Our ownership guidelines are set to be in line with market practices of companies that typically deliver long-term compensation entirely in equity, although 50% of our long-term incentive program is awarded in cash.

Position	Guidelines (lesser of)
CEO	3x base salary or 65,000 shares
COO/CFO	2x base salary or 25,000 shares
Other NEOs	2x base salary or 20,000 shares

Figure 6. Executive Stock Ownership Guidelines.

## III. EXECUTIVE COMPENSATION GOVERNANCE AND PROCEDURES

### Role of the Compensation Committee

The board of directors has delegated certain responsibilities to the compensation committee ("committee") through the committee charter, and the committee oversees the incentive, equity-based and other compensation plans in which our executive officers (including the NEOs) participate. A copy of the committee's charter can be viewed at <http://investor.lamresearch.com>.

Key committee responsibilities include, but are not limited to: evaluating the performance of the chief executive officer, the chairman and the vice chairman of the board, and recommending their compensation to the independent members of the board of directors; determining the compensation packages, targets, and payouts for executive officers other than the CEO; and reviewing, and approving where appropriate, equity-based compensation plans. During fiscal year 2012, Mr. Anstice and Mr. Newberry each served as CEO for part of the year, and Mr. Newberry continued to serve as vice chairman for the remainder of the year. Accordingly, the independent members of our board of directors, upon recommendation from the committee, approved Mr. Anstice's and Mr. Newberry's compensation packages, targets and payouts. For additional information on the committee's responsibilities, see "*Corporate Governance: Board Committees*" above.

In order to carry out these responsibilities, the committee receives and reviews information, analysis and proposals prepared by our management and by the committee's compensation consultant and other advisors (see "*Role of Committee Advisors*" below).

### Role of Management

The chief executive officer, with support from our human resources and finance organizations, develops recommendations for the compensation of our executive officers, including our NEOs. Typically, these recommendations cover the base salaries, annual incentive plan target award opportunities, long-term incentive plan target award opportunities and the criteria upon which these award opportunities may be earned, as well as actual payout amounts under annual and long-term incentive plans.

Working with its independent consultant, Compensia, Inc., a national compensation consulting firm (“Compensia”), the committee considers the CEO’s recommendations within the context of competitive compensation data, the committee’s compensation philosophy and objectives, current business conditions, and any other factors it considers relevant. At the request of the committee, the chairman and/or vice chairman of the board provides input to the committee on the chief executive officer’s recommendations.

Our chief executive officer generally attends committee meetings at the request of the committee. The chief executive officer leaves the meeting for any discussion of his own compensation, when the committee meets in executive session, and at any other time requested by the committee.

**Role of Committee Advisors**

The committee is authorized to engage its own advisors to assist in carrying out its responsibilities. The committee has engaged the services of Compensia. Compensia provides the committee with guidance regarding the amount and types of compensation for our chairman, vice chairman and NEOs and how these compare to other companies’ compensation practices, as well as guidance on market trends, evolving regulatory requirements, compensation of our independent directors, and other matters as requested by the committee.

Representatives of Compensia regularly attend committee meetings (including executive sessions without management present), communicate with the committee chair outside of meetings, and assist the committee with the preparation of metrics and goals. Compensia reports to the committee, not to management. At the committee’s request, Compensia meets with members of management to gather and discuss information that is relevant to advising the committee. The committee may replace Compensia or hire additional advisors at any time. Compensia has not provided any other services to the committee or to our management and has received no compensation other than with respect to the services described above.

**Peer Group Practices and Survey Data**

In establishing the total compensation levels of our executive officers as well as the mix and weighting of individual compensation elements, the committee monitors compensation data from a group of comparably sized companies in the technology industry (the “Peer Group”), which may differ from peer groups used by proxy research and voting advisory firms. The committee selects the companies constituting our Peer Group based on their comparability to our lines of business and industry, annual revenue, and market capitalization, and our belief that we are likely to compete with them for executive talent. Our Peer Group is focused on the semiconductor, semiconductor equipment and materials, and solar technology industries. Figure 7 below summarizes how the Peer Group companies compare to the Company:

<u>Metric</u>	<u>Lam Research Calendar Year 2011 (\$M)</u>	<u>Target for Peer Group</u>	<u>Peer Group Median as of December 31, 2011</u>
Revenue . . . . .	\$2,826	0.33 to 3 times Lam	\$2,613
Market Capitalization . . . . .	\$4,425	0.33 to 3 times Lam	\$6,230

*Figure 7. 2012 Peer Group Revenue and Market Capitalization.*

Based on these criteria, the Peer Group may be modified from year to year. Our Peer Group in effect in February 2012, when payout decisions for calendar year 2011 were made and compensation targets for 2012 were set, consists of the companies listed below, which represents the same Peer Group we used in February 2011 with the following exceptions: we added three new peers that met our peer group criteria (Advanced Micro Devices, Inc., Broadcom Corporation, and ON Semiconductor Corporation); removed two peers that no longer met the criteria (Cypress Semiconductor Corporation and MEMC Electronics Materials, Inc.); and removed two peers that were acquired during the intervening year (National Semiconductor Corporation and Varian Semiconductor Equipment Associates, Inc.) as well as Novellus.

Advanced Micro Devices, Inc.	LSI Corporation
Altera Corporation	Marvell Technology Group Ltd
Analog Devices, Inc.	Maxim Integrated Products, Inc.
Applied Materials, Inc.	Molex Incorporated
Atmel Corporation	NVIDIA Corporation
Avago Technologies	ON Semiconductor Corporation
Broadcom Corporation	SanDisk Corporation
Fairchild Semiconductor International, Inc.	SunPower Corporation
First Solar, Inc.	Teradyne, Inc.
KLA-Tencor Corporation	Xilinx, Inc.

*Figure 8. Calendar Year 2012 Peer Group Companies.*

We derive revenue, market capitalization and NEO compensation data for the Peer Group companies from their public filings with the SEC and other publicly available sources. In addition to analyzing Peer Group information, our human resources department and Compensia analyze selected survey data on base salary, bonus targets, equity awards, and total compensation drawn from the Radford Executive Survey (“Radford Survey”). Radford is a leading provider of compensation data.

The committee reviews compensation practices at Peer Group companies and selected data from the Radford Survey primarily as a reference to ensure compensation packages are within market norms. Typically base pay levels are designed to approximate market median and variable pay is designed to deliver above market median for exceptional performance. However, the committee does not “target” pay at any specific percentiles. Rather, individual pay positioning depends on a variety of factors, such as prior job performance, job scope and responsibilities, skill set, prior experience, the executive officer’s time in his or her position with us, internal equity regarding pay levels for similar skill levels or positions, external pressures to attract and retain executive talent, Company performance and general market conditions.

#### **IV. PRIMARY COMPONENTS OF NEO COMPENSATION; CALENDAR YEAR 2011 COMPENSATION PAYOUTS; CALENDAR YEAR 2012 COMPENSATION TARGETS AND METRICS**

In fiscal year 2012, management received feedback from stockholders and stockholder advisory groups that revealed a need to improve our disclosures and provide more clarity to ensure understanding of our executive compensation program. This section describes the components of our executive compensation program. It also describes, for each component, the payouts to our NEOs for calendar year 2011 and the forward-looking actions taken with respect to our NEOs in calendar year 2012.

## Base Salary

Base salaries represent one of the primary components of our executive compensation program. We believe the purpose of base salary is to fairly and competitively compensate our executive officers, including our NEOs, with a fixed amount of compensation for the jobs they perform. Accordingly, we seek to ensure that our base salary levels are competitive in reference to Peer Group practice and the data generally suggested by the Radford Survey. Adjustments to base salary are generally considered by the committee each year in February.

For calendar years 2011 and 2012, base salaries were determined by the committee in February and became effective in April based on the factors described above. The base salary for Mr. Anstice was increased January 1, 2012 in connection with his promotion to CEO. The base salary for Mr. Newberry was reduced January 1, 2012 in connection with his move to vice chairman. The base salaries of the NEOs for calendar years 2011 and 2012 are as follows:

<u>Named Executive Officer</u>	<u>Base Salary as of April 2011</u>	<u>Base Salary as of April 2012</u>
Martin B. Anstice .....	\$550,000	\$665,000 <sup>(1)</sup>
Ernest E. Maddock .....	\$471,000	\$485,000
Richard A. Gottscho .....	\$425,000	\$438,000
Sarah A. O'Dowd .....	\$375,000	\$386,000
Mukund Srinivasan .....	\$300,000	\$325,000
Stephen G. Newberry .....	\$885,000	\$500,000 <sup>(1)</sup>

(1) Effective January 1, 2012.

*Figure 9. 2011-2012 NEO Base Salaries.*

## Annual Incentive Program

Our annual incentive program provides short-term incentive-based compensation to our executive team based on performance against pre-set corporate and organizational metrics. The committee establishes individual target opportunities for each executive officer as a percentage of base salary. Specific target award opportunities are determined based on job scope and responsibilities, as well as an assessment of competitive compensation data. Awards are capped at a multiple of the target opportunity. The cap for 2012 was set at 2.25 times target, consistent with prior years. For example, if an NEO's target is 85% of base salary, then the cap is 191% of base salary. The committee reserves the right to settle annual incentive payments in cash, Company shares, or any combination of cash and Company shares, based on the Company's cash position. Historically, these payments have been settled in cash.

To create a maximum payout amount from which annual incentive program payouts may be made, the committee establishes a performance-based funding factor metric and related goals ("Funding Factor"). The committee may exercise negative (but not positive) discretion against the Funding Factor result, and the entire funded amount generally is not paid out. The committee also tracks specific corporate-wide metrics and related goals that apply to all executive officers ("Corporate Factor"), and organization-specific metrics and related goals that apply to each individual NEO ("Organization Factors"). The specific metrics and goals for the Corporate Factor and the Organization Factor, and their relative weightings, are based upon the recommendation of our chief executive officer. These goals are set to be more difficult than the Funding Factor goal. The Corporate Factor and Organization Factor results are weighted equally in making payout decisions, and discretion may be applied against these results in a positive or negative direction. Very strong performance is required to receive payouts above the target award opportunity, and weaker performance results in lower payouts.

The metric and goals for the Funding Factor are generally set on an annual basis (for calendar year 2012, because of the Novellus acquisition, the metric and goals were set on a semi-annual basis); metrics and goals for

some of the other performance factors are set every six months to preserve the flexibility to make adjustments in response to changes in our historically highly cyclical business environment. New goals are set depending on the business environment, to ensure that they remain stretch goals regardless of changes in the environment. As business conditions improve, goals are set to require better performance, and as business conditions deteriorate, goals are set to ensure stretch performance under more difficult conditions. Over the last three years, at the six-month reset point, the goals have been set higher once, set lower once, and remained the same once. We believe this ability to reset goals motivates exceptional performance and delivers stockholder value throughout fluctuating business cycles.

The committee uses the Corporate Factor and Organization Factors to obtain a view of corporate and organizational performance, and may exercise discretion against either of these factors based on its assessment of business, leadership team or individual performance. The committee uses the results from these factors to determine whether and in what amount to exercise negative discretion against the Funding Factor pool. The Corporate Factor and Organization Factor results are weighted equally in determining the final result. We believe the metrics and goals set under this program, together with the exercise of discretion as described above, have been effective to achieve pay-for-performance results, as illustrated in Figure 5 in section I above and in Figure 10 below. Over the five year period from 2008 to 2012, average payouts for our NEOs have varied from 39% of target for 2008, reflecting the weak semiconductor equipment industry conditions that affected company performance during that period, to 166% of target for 2010, reflecting the strong business environment and corporate performance achieved that year. The payment for calendar year 2011 performance was 99%, reflecting good performance despite a weakening business environment versus calendar year 2010.

<b>Calendar Year</b>	<b>Average NEO's Annual Incentive Payout as % of Target Award Opportunity</b>	<b>Business Environment</b>
<b>2011</b>	99%	Healthy semiconductor demand under weakening economic conditions; business conditions deteriorated in the second half of calendar year 2011
<b>2010</b>	166%	Strong operating performance supported by semiconductor industry demand growth
<b>2009</b>	81%	Difficult business environment through the first half of calendar year 2009; improving conditions in the second half of calendar year 2009

*Figure 10. Annual Incentive Program Payouts for Calendar Years 2009-2011.*

***Annual incentive program parameters and payout decisions for calendar year 2011***

The committee had set the calendar year 2011 target opportunity for each NEO in February 2011, together with the Funding Factor metric and goals, and metrics for Corporate and Organization Factors. To allow flexibility to respond to changing business conditions, goals relating to the Corporate Factor and some of the Organization Factors were set on a six-month basis and revisited in July, others were set for the full year. In February 2012, the committee considered the actual results under the various factors and made payout decisions for the calendar year 2011 program, all as described below.

2011 Annual Award Opportunities. The committee had approved the following target annual incentive award opportunities for calendar year 2011 for each NEO as follows:

<u>Named Executive Officer</u>	<u>Target Award Opportunity (% of Base Salary)</u>
Martin B. Anstice .....	100%
Ernest E. Maddock .....	85%
Richard A. Gottscho .....	85%
Sarah A. O’Dowd .....	75%
Mukund Srinivasan .....	70%
Stephen G. Newberry .....	150%

*Figure 11. 2011 Annual Target Award Opportunities.*

2011 Annual Incentive Program Funding Factor. In February 2011, the committee set the Funding Factor for the full year based on non-GAAP operating income as a percentage of revenue. A minimum of 7.5% non-GAAP operating income percentage was required to fund any program payments, and performance greater than or equal to 20% would fully fund the pool for maximum payout potential of 225%. Actual performance was interpolated between those points. Based on calendar year 2011 non-GAAP operating income of 18.1% of revenue, the Funding Factor resulted in a potential payout pool of up to 207% of target award opportunity. The committee exercised negative discretion against this Funding Factor result in making actual payment decisions, as described under “2011 Payout Decisions” below.

2011 Annual Incentive Program Corporate Factor. The committee set the metrics for the calendar year 2011 Corporate Factor as non-GAAP operating income (weighted 65%) and non-GAAP cash flow from operations (weighted 35%), both as a percentage of revenue. It set goals of 21.0% and 28.0% of revenue, respectively, for the first half of the year in February; and in July, it set goals of 18.0% and 21.0% of revenue, respectively, for the second half of the year. Actual non-GAAP operating income percentage was 22.8% of revenue for the first half of calendar year 2011, and 12.2% of revenue for the second half, resulting in a factor of 0.925 for the year. Actual non-GAAP cash flow from operations percentage was 29.4% of revenue for the first half of calendar year 2011, and 20.4% of revenue for the second half, resulting in a factor of 1.040 for the year. This performance resulted in a total Corporate Factor for calendar year 2011 of 0.965.

2011 Annual Incentive Program Organization Factors. Calendar year 2011 Organization Factors were set for each NEO. The Organization Factors for Messrs. Anstice and Newberry were based on market share goals (weighted 70%) and on the average Organization Factor of other organizations reporting to them (weighted 30%). For other NEOs, specific Organization Factors were based on market share goals and/or strategic, operational and organizational performance goals specific to the organizations they manage. The committee exercised discretion in evaluating the executives’ overall Organization Factor performance.

- Mr. Anstice’s Organization Factor was comprised of etch market share (40%), clean market share (30%), and the average Organization Factor of all organizations reporting to him (30%).
- Mr. Maddock’s Organization Factor was comprised of strategic, operational and organizational development goals for finance (35%), for global information systems (35%), for Silfex (20%) and for investor relations (10%).

- Dr. Gottscho's Organization Factor was comprised of market share, strategic, operational and organizational development goals for etch (50%) and for clean (50%).
- Ms. O'Dowd's Organization Factor was comprised of strategic, operational and organizational development goals for global human resources (50%), and for legal (50%).
- Dr. Srinivasan's Organization Factor was comprised of market share, strategic, operational and organizational development goals for clean.
- Mr. Newberry's Organization Factor was comprised of etch market share (40%), clean market share (30%), and the average Organization Factor of all organizations reporting to him (30%).

The Organization Factor results for our NEOs were: Mr. Anstice, 0.93; Mr. Maddock, 1.09; Dr. Gottscho, 0.93; Ms. O'Dowd, 1.15; Dr. Srinivasan, 0.90, and Mr. Newberry, 0.93.

2011 Payout Decisions. In February 2012, the committee exercised negative discretion against the Funding Factor pool, and made payouts for calendar year 2011 for each NEO, as follows: Mr. Anstice, \$521,125; Mr. Maddock, \$416,823; Dr. Gottscho, \$339,032; Ms. O'Dowd, \$308,868; Dr. Srinivasan, \$194,068; and Mr. Newberry, \$1,244,414.

#### ***Calendar year 2012 annual incentive program parameters***

In February 2012, the committee set the target award opportunity for each NEO as a percentage of base salary, and consistent with prior years set a cap on payments equal to 2.25 times target. The target award opportunity for each NEO is: Mr. Anstice, 125%; Mr. Maddock and Dr. Gottscho, 85%; Ms. O'Dowd, 75%.<sup>4</sup>

The committee also approved a metric and first half goals for the Funding Factor and for the Corporate Factor based on non-GAAP operating income as a percentage of revenue. Consistent with plan design, the Corporate Factor goal is more difficult to achieve than the Funding Factor goal. Organization Factor metrics and goals were also set for each NEO. These include market share and strategic and operational performance goals specific to individual business organizations. As a result, each NEO has multiple performance metrics and goals under this program. Some of the goals set in February were six-month goals, and in those cases goals were set for the second half in July.

#### **Long-Term Incentive Program**

Our long-term incentive program provides longer-term incentive-based and service-based compensation to our executive team. It operates on a two-calendar year cycle, with target award opportunities set at the start of each two-year performance period. Target award opportunities are expressed half in cash and half in equity. Consistent with our philosophy of paying for performance, the long-term incentive program has been designed to be 75% performance based and 25% service based. A deviation from the long-term program design was made in 2012 as a result of the merger with Novellus. The merger had been announced, but had not been concluded, when compensation decisions were made in February 2012 and, as a result, management had not set long-term goals for the combined organization by that time, making it difficult for the committee to set appropriate long-term goals under the long-term compensation plan. As a result, and to aid retention during the integration period, for the 2012/2013 performance period, the long-term incentive plan pay components are 50% performance-based cash and 50% service-based restricted stock units. Since this is a deviation from the historical plan design in effect for all periods discussed other than calendar year 2012, we reference the 75% performance-based mix in describing the program design.

<sup>4</sup> As explained in footnote 2 above, forward-looking information regarding Dr. Srinivasan's compensation is not included here. Similarly, information regarding Mr. Newberry's fiscal year 2013 compensation is not included here. Following his transition from CEO in January 2012, he is no longer eligible for this program. His employment agreement is described in "Potential Payments Upon Termination or Change in Control" below.

We are the only company in our peer group that uses cash in our long-term incentive program. Half of the long-term target award is made in cash, and the cash portion of the program is 100% performance based. We believe that the cash portion of our program has been successful in driving superior long-term performance throughout the high volatility we have experienced in our industry and our business over the past several years. (See Figure 5 in section I for an illustration of our overall “pay for performance” results and Figure 13 below for an illustration of alignment of our cash program payouts to our performance.) The other half of the long-term award is made in equity, and historically half of the equity award (25% of the total award) has been performance based, delivered in either performance-vested RSUs or stock options. The remaining half of the equity award (25% of the total award) has been delivered through service-vested RSUs. Therefore, historically 75% of the total award – the cash award and half of the equity award — is performance based. The performance-based equity component of the long-term program is reviewed annually to determine whether performance-based RSUs or stock options are the most appropriate form for the award based on criteria such as the current business environment, the perceived potential value to motivate and retain the executives, and the accounting impact relative to the potential value delivered.

### Target Award Opportunity

Under the long-term incentive program, the committee sets a target award opportunity for each participant, a cap on potential payouts (2.5 times the target award opportunity), and metrics and goals for the program. Multiple metrics and goals are used in the program, with separate metrics and goals set for the cash and performance-based equity components of the program. The service-based equity component of the program aligns our executives with our stockholders by tracking changes in stock price over the vesting period. This alignment is further enhanced by our stock ownership guidelines. (See “Stock Ownership Guidelines” in section II above.)

Target award opportunities are set at the beginning of each two-year performance period based on the executive’s position and responsibilities and an assessment of competitive compensation data. Long-term cash awards are capped at 2.5 times these target amounts. Because each performance period covers performance in two calendar years, three performance cycles affect compensation during each fiscal year. The target amounts (which included both the cash and equity long-term incentive awards) for each NEO under the three program cycles affecting fiscal year 2012 are as follows:

<u>Named Executive Officer</u>	<u>Long-Term Incentive Plan Performance Period</u>	<u>Target Award Opportunity</u>
Martin B. Anstice . . . . .	2012/2013	\$3,500,000
	2011/2012	\$2,400,000
	2010/2011	\$2,000,000
Ernest E. Maddock . . . . .	2012/2013	\$1,600,000
	2011/2012	\$1,600,000
	2010/2011	\$1,600,000
Richard A. Gottscho . . . . .	2012/2013	\$1,600,000
	2011/2012	\$1,600,000
	2010/2011	\$1,350,000
Sarah A. O’Dowd . . . . .	2012/2013	\$1,250,000
	2011/2012	\$1,250,000
	2010/2011	\$1,250,000
Mukund Srinivasan . . . . .	2011/2012	\$ 800,000
Stephen G. Newberry . . . . .	2011/2012	\$4,500,000
	2010/2011	\$4,500,000

Figure 12. Long-Term Incentive Program Target Award Opportunities, 2010/2011 to 2012/2013.



### ***Long-Term Cash Incentive Program***

As noted above, one half of the total long-term target award for each two-year performance period is awarded under the cash portion of the program, and this portion is 100% performance-based. The committee sets performance metrics under each two-year performance period on an annual basis. Because historically the Company's business environment has been very volatile, goals against the metrics are set every six months. This flexibility allows the committee to react to changes in the external business environment. When business conditions improve, goals are set to require stronger performance, and when business conditions deteriorate, goals are set to ensure stretch performance under more difficult conditions. As with the annual incentive program, we believe this flexibility motivates exceptional performance and delivers stockholder value throughout fluctuating business cycles.

In addition to motivating exceptional performance, the cash portion of our long-term program builds stockholder value creation in several ways. First, paying in cash rather than equity reduces dilution for our stockholders. Second, there is a specific stock price-related factor in the program that serves to align the interests of management and the stockholders. Third, the program has been designed so that we can record compensation expense in the period in which the metric (usually non-GAAP operating income) is realized rather than on an estimated basis over the life of the program. That is, compensation expense is greater in periods when non-GAAP operating income is higher, and lower in periods when non-GAAP operating income is lower. We believe that this ability to match compensation expense recognition to the period in which non-GAAP operating income is earned enhances stockholder value creation throughout fluctuating business cycles.

Results determined based on performance against the pre-set goals are adjusted to reflect stock price appreciation occurring during the performance period. The adjustment is made quarterly referencing a ratio of (x) the market price of our common stock over a 50-trading-day period to (y) the market price of our common stock over a 200-trading-day period, if the ratio is greater than one. Thus the final payout amount is determined by achievement against the performance goals adjusted by stock price appreciation, and subject to the cap the committee sets and any negative discretion the committee might exercise.

For each two-year performance period cliff vesting occurs and payouts are made following the end of the second year to those participants who remain employed on the Award Determination Date. For example, the performance period for the 2010/2011 program covered calendar years 2010 and 2011, and payments for that cycle were made on February 17, 2012, to those participants who remained employed on that date.

We believe this program has been effective to achieve pay-for-performance results, as illustrated in Figure 13 below.

Long-Term Cash Cycle	Average Long-Term Cash Award as % of Target	Business Environment
2010/2011	165%	<p><b>2011:</b> Healthy semiconductor demand under weakening economic conditions; business conditions deteriorated in the second half of calendar year 2011</p> <p><b>2010:</b> Strong operating performance supported by semiconductor industry demand growth</p>
2009/2010	119%	<p><b>2010:</b> Strong operating performance supported by semiconductor industry demand growth</p> <p><b>2009:</b> Difficult business environment of global downturn continued through the first half of calendar year 2009; improved conditions in the second half of calendar year 2009</p>
2008/2009	59%	<p><b>2009:</b> Difficult business environment of global downturn continued through the first half of calendar year 2009; improved conditions in the second half of calendar year 2009</p> <p><b>2008:</b> Difficult business environment of global downturn in economy; weak semiconductor demand environment</p>

Figure 13. Long-Term Cash Payouts, 2008/2009 to 2010/2011.

Payout decisions under the 2010/2011 long-term cash program. In February 2012, the committee determined payouts for the 2010/2011 performance cycle. The performance metric for both years of the program was non-GAAP operating income, and the starting equity price for determination of stock price appreciation metric was set as \$30.32. Specific non-GAAP operating income goals were set in six month increments, and during the entire performance period, these goals ranged from \$121 million to \$201 million, reflecting stretch goals under prevailing business conditions. Actual quarterly performance of non-GAAP operating income ranged from 44% to 125% of goal. Without regard to stock price appreciation, the resulting payout would have been 102% of target for the entire period. However, the stock price appreciation metric served to increase the payouts to 165% of target. The committee did not exercise negative discretion against these results.

Payouts for the eligible NEOs were awarded at 165% of target, as follows:

<u>Named Executive Officer<sup>(1)</sup></u>	<u>Target Two-Year Cash Award</u>	<u>Cash Payout</u>
Martin B. Anstice . . . . .	\$1,000,000	\$1,648,516
Ernest E. Maddock . . . . .	\$ 800,000	\$1,318,813
Richard A. Gottscho . . . . .	\$ 675,000	\$1,112,748
Sarah A. O'Dowd . . . . .	\$ 625,000	\$1,030,323
Stephen G. Newberry . . . . .	\$2,250,000	\$3,709,161

<sup>(1)</sup> Dr. Srinivasan did not participate in the 2010/2011 program.

Figure 14. 2010/2011 Long-Term Cash Awards.

Calendar year 2011 and 2012 decisions under the 2011/2012 long-term cash program. The year-long parameters of the 2011/2012 performance period were set in February 2011. The target award amounts were set at that time, and are shown in the table below. At that time, the committee also set non-GAAP operating income

as the performance metric for the 2011 calendar year portion of the 2011/2012 program and set the starting price for measuring stock price appreciation for the 2011 calendar year at \$41.21, the 200-day moving average as of December 23, 2010. In February 2012, the committee retained non-GAAP operating income as the performance metric and retained \$41.21 as the starting price for measuring stock price appreciation for the 2012 calendar year portion of the program. Specific goals against the non-GAAP operating income have been set in advance on a six-month basis throughout the two-year period. Payouts will be determined and made in February 2013 to eligible NEOs.

<u>Named Executive Officer</u>	<u>Target Two-Year Cash Award (split evenly between CY 2011 and CY 2012)</u>
Martin B. Anstice .....	\$1,200,000
Ernest E. Maddock .....	\$ 800,000
Richard A. Gottscho .....	\$ 800,000
Sarah A. O'Dowd .....	\$ 625,000
Stephen G. Newberry .....	\$2,250,000

Figure 15. 2011/2012 Long-Term Cash Target Award Opportunities.

Calendar year 2012 decisions under the 2012/2013 long-term cash program. In February 2012, the committee set target award amounts for each NEO under the 2012/2013 program, established the performance metric for calendar year 2012 as non-GAAP operating income, and set the starting price for measuring stock price appreciation for the 2012 calendar year at \$43.45, the 200-day moving average as of December 23, 2011. Goals against the non-GAAP operating income were also set in February for the first half of calendar year 2012, and in July 2012 for the second half. Payouts under this program will be determined and made in February 2014 to eligible NEOs. The target cash award opportunity for each eligible NEO under the 2012/2013 long-term cash program is shown in the table below.<sup>5</sup>

<u>Named Executive Officer</u>	<u>Target Two-Year Cash Award (split evenly between CY 2012 and CY 2013)</u>
Martin B. Anstice .....	\$1,750,000
Ernest E. Maddock .....	\$ 800,000
Richard A. Gottscho .....	\$ 800,000
Sarah A. O'Dowd .....	\$ 625,000

Figure 16. 2012/2013 Long-Term Cash Target Award Opportunities.

### **Long-Term Equity Incentive Program**

The equity portion of the long-term incentive program is designed to provide competitive levels of compensation and to reward our senior executives for Company performance and stock price appreciation, using both performance-based and service-based awards. One half of the total long-term target award opportunity for each two-year performance period is awarded under the equity segment of the program. Awards vest on an Award Determination Date in the calendar year following the two-year performance period, depending on continued employment with us and, in the case of performance-based RSUs, on performance against specified metrics and goals.

Vesting and performance results under the 2010/2011 long-term equity program. On February 5, 2010, the committee made a grant to each NEO under the 2010/2011 long-term equity program of performance-based and service-based RSUs with a combined value equal to 50% of the NEO's total target award amount, as shown in

<sup>5</sup> Following Mr. Newberry's transition from CEO in January 2012, he is no longer eligible for this program. See "Potential Payments Upon Termination or Change in Control" for a description of Mr. Newberry's employment contract.

Figure 17. To determine the number of performance-based and service-based RSUs, the NEO's long-term equity target award amount was divided by \$33.29, the closing price of our common stock on the grant date. On the same date, the performance criteria for the performance-based RSUs were set. The performance metric was non-GAAP operating income, and the goal was 15% or more non-GAAP operating income as a percentage of revenue. Maximum vesting under the performance-based award is 100%, and the minimum is 0%. The Award Determination Date for all of the performance-based and service-based RSUs under this program was on February 5, 2012. On that date, the service-based awards vested due to the passage of time, and the performance-based awards vested in full (100%) under the previously set performance criteria.<sup>6</sup>

<u>Named Executive Officer</u>	<u>Equity Target Award Opportunity</u>	<u>Vested Service-based Restricted Stock Unit Award</u>	<u>Vested Performance-based Restricted Stock Unit Award</u>
Martin B. Anstice . . . . .	\$1,000,000	15,019	15,019
Ernest E. Maddock . . . . .	\$ 800,000	12,015	12,015
Richard A. Gottscho . . . . .	\$ 675,000	10,138	10,138
Sarah A. O'Dowd . . . . .	\$ 625,000	9,387	9,387
Stephen G. Newberry . . . . .	\$2,250,000	33,793	33,793

Figure 17. 2010/2011 Long-Term Equity Vesting.

Awards under the 2011/2012 long-term equity program. Under the 2011/2012 long-term equity program, on March 4, 2011 the committee made a grant to each NEO of performance-based and service-based RSUs with a combined value equal to 50% of the NEO's total target award amount, as shown in the following table. To determine the number of performance-based and service-based RSUs, the NEO's equity target dollar amount was divided by \$58.27, the closing price of our common stock on the grant date. The performance criteria for the performance-based RSUs were set by the committee on the same date. The performance metric is non-GAAP operating income, and goals were set for the two-year performance period at that time. The maximum vesting is 100%, and the minimum is 0%. The Award Determination Date will be March 4, 2013. On that date, the service-based RSUs will vest, and the performance-based RSUs will vest to the extent earned under the specified criteria.

<u>Named Executive Officer</u>	<u>Equity Target Award Opportunity</u>	<u>Service-based Restricted Stock Units Award</u>	<u>Performance-based Restricted Stock Units Award</u>
Martin B. Anstice . . . . .	\$1,200,000	10,296	10,296
Ernest E. Maddock . . . . .	\$ 800,000	6,864	6,864
Richard A. Gottscho . . . . .	\$ 800,000	6,864	6,864
Sarah A. O'Dowd . . . . .	\$ 625,000	5,362	5,362
Mukund Srinivasan . . . . .	\$ 400,000	3,432	3,432
Stephen G. Newberry . . . . .	\$2,250,000	19,306	19,306

Figure 18. 2011/2012 Long-Term Equity Awards.

<sup>6</sup> Dr. Srinivasan did not participate in the 2010/2011 long-term incentive plan.

Calendar year 2012 decisions for the 2012/2013 long-term equity program. On February 7, 2012, the committee made a grant under the 2012/2013 long-term equity program to each NEO of RSUs with a combined value equal to 50% of the NEO's total target award amount, as shown in Figure 19. As explained above, the committee granted only service-based equity awards because of the then pending merger with Novellus. To determine the number of RSUs, the NEO's long-term equity target dollar amount was divided by \$43.38, the closing price of our common stock on the grant date. The Award Determination Date is February 7, 2014.

Named Executive Officer <sup>(1)</sup>	Long-Term Equity Target Award Opportunity	Service-based Restricted Stock Units Award
Martin B. Anstice .....	\$1,750,000	40,341
Ernest E. Maddock .....	\$ 800,000	18,441
Richard A. Gottscho .....	\$ 800,000	18,441
Sarah A. O'Dowd .....	\$ 625,000	14,407

(1) As noted above, Dr. Srinivasan is not participating in the 2012/2013 executive officer program.

Figure 19. 2012/2013 Long-Term Equity Awards.

### Employment/Change in Control Arrangements

The Company has entered into employment agreements with Messrs. Anstice, Maddock and Newberry, and change in control agreements with our other executive officers, including Dr. Gottscho and Ms. O'Dowd. The Company enters into these agreements to help attract and retain our NEOs and believes that these agreements help facilitate a smooth transaction and transition in connection with a change-in-control event. The Company also entered into an employment agreement with Timothy Archer, our chief operating officer, in connection with the Novellus merger.

The employment agreements generally provide for designated payments in the event of an "involuntary termination" of employment, "death," or "disability," as each is defined in the applicable agreements. The employment agreements, and also the change in control agreements, generally provide for designated payments in the case of a "change in control" when coupled with an "involuntary termination" (*i.e.*, a double trigger is required before payment is made due to a change in control), as each is defined in the applicable agreements.

After the end of the fiscal year, the Company entered into new employment agreements with Mr. Maddock and Dr. Gottscho. The Company also entered into a new change in control agreement with Ms. O'Dowd.

For additional information about these arrangements and detail about post-termination payments under these arrangements, see the "Potential Payments Upon Termination or Change in Control" tables.

### Other Benefits Not Available to All Employees

Elective Deferred Compensation Plan. The Company maintains an elective deferred compensation plan that allows eligible employees (including all of the NEOs) to voluntarily defer receipt of all or a portion of base salary and certain incentive compensation payments until a date or dates elected by the participating employee. This allows the employee to defer taxes on compensation amounts that are deferred. In addition, we provide a limited Company contribution to the plan for all eligible employees.

Supplemental Health and Welfare Benefits. We provide certain health and welfare benefits not generally available to other employees, including the payment of premiums for supplemental long-term disability insurance, executive dental insurance coverage, and an executive medical reimbursement program that reimburses an executive officer's payment of medical co-insurance and co-payments, and vision care expenses.

We also provide post-retirement medical and dental insurance coverage for eligible former executive officers under our Executive Retirement Medical and Dental Plan, subject to certain eligibility requirements. We have an independent actuarial valuation of this post-retirement benefit conducted annually in accordance with generally accepted accounting principles. The most recent valuation was conducted in June 2012 and reflected the following retirement benefit obligation for the NEOs:

<u>Named Executive Officer</u>	<u>Fiscal Year 2012</u>
Martin B. Anstice .....	\$192,000
Ernest E. Maddock .....	\$465,000
Richard A. Gottscho .....	\$426,000
Sarah A. O’Dowd .....	\$235,000
Mukund Srinivasan .....	\$189,000
Stephen G. Newberry .....	\$436,000

*Figure 20. Post-Retirement Benefit Obligations as of June 2012.*

## V. TAX AND ACCOUNTING CONSIDERATIONS

### Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), imposes limitations on the deductibility for federal income tax purposes of compensation in excess of \$1 million paid to our chief executive officer, and any of our three other most highly compensated executive officers (other than our chief financial officer) in a single tax year. Generally, compensation in excess of \$1 million may only be deducted if it is “performance-based compensation” within the meaning of the Code.

When we design our executive compensation program, we take into account whether a particular form of compensation will be considered “performance-based” compensation for purposes of section 162(m).

To facilitate the deductibility of compensation payments under section 162(m), in fiscal year 2004, we adopted the Executive Incentive Plan (“EIP”) and obtained stockholder approval for the EIP at that time and again in calendar year 2010. Both the Annual Incentive Program and the Long-term Incentive Program are administered under the EIP. The annual program awards and the long-term cash awards to our NEOs generally qualify for deductibility under section 162(m) to the extent practicable.

Consistent with the EIP and the regulations under section 162(m), compensation income realized upon the exercise of stock options granted under our long-term incentive program generally will be deductible because the awards are granted by a committee whose members are outside directors and the other conditions of the EIP are satisfied. However, compensation associated with RSUs granted under the long-term incentive program or under the Global Products Group Key Incentive Plan is deductible only to the extent that vesting is based on specific performance goals and the other conditions of the EIP are satisfied. Therefore, compensation income realized upon the vesting of service-based RSUs or upon the vesting of equity awards not meeting the conditions required by the EIP is not deductible to the Company to the extent that the threshold is exceeded.

The committee monitors the application of section 162(m) and the associated Treasury regulations on an ongoing basis and the advisability of qualifying our executive compensation for deductibility of such compensation. The committee’s policy is to qualify our executive compensation for deductibility under applicable tax laws to the extent practicable and if the committee believes it is in the best interests of the Company and its stockholders.

### **Taxation of “Parachute” Payments**

Sections 280G and 4999 of the Code provide that “disqualified individuals” within the meaning of the Code (which generally includes certain officers, directors and employees of the Company) may be subject to additional taxes if they receive payments or benefits in connection with a change in control of the corporation that exceeds certain prescribed limits. The corporation or its successor may also forfeit a deduction on the amounts subject to this additional tax.

We did not provide any of our executive officers, including any NEO, any director, or any other service provider with a “gross-up” or other reimbursement payment for any tax liability that the individual might owe as a result of the application of Sections 280G or 4999 during fiscal year 2012, and we have not agreed and are not otherwise obligated to provide any individual with such a “gross-up” or other reimbursement.

### **Internal Revenue Code Section 409A**

Section 409A of the Code imposes significant additional taxes on an executive officer, director, or service provider that receives non-compliant “deferred compensation” that is within the scope of section 409A. Among other things, section 409A potentially applies to the cash awards under the long-term incentive program, the Elective Deferred Compensation Plan, certain equity awards, and severance arrangements.

To assist our employees in avoiding additional taxes under section 409A, we have structured the long-term incentive program, the Elective Deferred Compensation Plan, and our equity awards in a manner intended to qualify them for exclusion from or compliance with section 409A.

### **Accounting for Stock-Based Compensation**

We follow Financial Accounting Standards Board Accounting Standards Codification Topic 718 (“ASC 718”) for accounting for our stock options and other stock-based awards. ASC 718 requires companies to calculate the grant date “fair value” of their stock option grants and other equity awards using a variety of assumptions. This calculation is performed for accounting purposes. ASC 718 also requires companies to recognize the compensation cost of stock option grants and other stock-based awards in their income statements over the period that an employee is required to render service in exchange for the option or other equity award.

## **COMPENSATION COMMITTEE REPORT**

The compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K. Based on this review and discussion, the compensation committee has recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and the Company's Annual Report on Form 10-K.

This Compensation Committee Report shall not be deemed "filed" with the SEC for purposes of federal securities law, and it shall not, under any circumstances, be incorporated by reference into any of the Company's past or future SEC filings. The report shall not be deemed soliciting material.

### **COMPENSATION COMMITTEE**

*Grant M. Inman (Chair)*

*Michael R. Cannon*

*Youssef A. El-Mansy*

*Christine A. Heckart*

*Abhijit Y. Talwalkar*



**COMPENSATION COMMITTEE INTERLOCKS  
AND INSIDER PARTICIPATION**

None of the committee members has ever been an officer or employee of Lam Research. No interlocking relationship exists or existed during fiscal year 2012 between any member of our compensation committee and any member of any other company's board of directors or compensation committee.

**EXECUTIVE COMPENSATION TABLES**

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$) <sup>(2)</sup>	Total (\$)
Martin B. Anstice . . . . . President and Chief Executive Officer	2012	\$605,288	\$ 0	\$1,749,993	\$1,463,810 <sup>(6)</sup>	\$22,337	\$3,841,428
	2011	\$512,738	\$ 0	\$1,199,896	\$2,518,831 <sup>(7)</sup>	\$16,459	\$4,247,924
	2010	\$425,141	\$ 0	\$ 999,965	\$1,385,442 <sup>(8)</sup>	\$16,857	\$2,827,405
Ernest E. Maddock . . . . . Senior Vice President and Chief Financial Officer	2012	\$474,261	\$ 0	\$ 799,971	\$1,012,865 <sup>(9)</sup>	\$18,413	\$2,305,510
	2011	\$457,194	\$ 0	\$ 799,931	\$2,096,358 <sup>(10)</sup>	\$18,069	\$3,371,552
	2010	\$415,693	\$ 0	\$ 799,959	\$1,224,780 <sup>(11)</sup>	\$17,987	\$2,458,419
Richard A. Gottscho . . . . . Senior Vice President, Global Products	2012	\$427,942	\$ 5,609 <sup>(3)</sup>	\$ 799,971	\$ 905,832 <sup>(12)</sup>	\$19,959	\$2,159,312
	2011	\$396,781	\$ 0	\$1,248,731	\$1,799,597 <sup>(13)</sup>	\$18,913	\$3,464,022
	2010	\$345,363	\$28,918 <sup>(4)</sup>	\$1,607,108	\$ 995,312 <sup>(14)</sup>	\$41,719	\$3,018,420
Sarah A. O'Dowd . . . . . Group Vice President and Chief Legal Officer	2012	\$377,596	\$ 0	\$ 624,976	\$ 774,526 <sup>(15)</sup>	\$15,355	\$1,792,453
	2011	\$363,753	\$ 0	\$ 624,887	\$1,611,267 <sup>(16)</sup>	\$16,783	\$2,616,690
Mukund Srinivasan . . . . . Vice President and General Manager, Clean Business	2012	\$305,769	\$ 3,200 <sup>(5)</sup>	\$ 828,280	\$ 415,862 <sup>(17)</sup>	\$20,390	\$1,573,501
Stephen G. Newberry . . . . . Vice Chairman	2012	\$699,231	\$ 0	\$ 0	\$2,530,467 <sup>(18)</sup>	\$11,331	\$3,241,029
	2011	\$857,852	\$ 0	\$2,249,921	\$6,274,853 <sup>(19)</sup>	\$10,619	\$9,393,245
	2010	\$737,473	\$ 0	\$2,249,938	\$3,211,287 <sup>(20)</sup>	\$11,184	\$6,209,882

- (1) The amounts shown in this column represent the value of restricted stock unit awards granted in accordance with ASC 718. However, pursuant to SEC rules, these values are not reduced by an estimate for the probability of forfeiture. The assumptions used to calculate the fair value of the restricted stock units in fiscal year 2012 are set forth in Note 11 in the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended June 24, 2012.
- (2) Please refer to the "All Other Compensation" table, which immediately follows this table, for additional information.
- (3) Represents a patent award and a bonus equal to the additional income tax due to section 409A for certain stock option awards.
- (4) Represents a bonus equal to the additional income tax due to section 409A for certain stock option awards.
- (5) Represents a bonus paid for a patent award.
- (6) Represents \$521,125 earned by Mr. Anstice under the 2011 Annual Incentive Program ("AIP"), \$233,936 accrued on Mr. Anstice's behalf for the performance during fiscal year 2012 under the 2010/2011 Cash Long-Term Incentive Program ("LTIP"), \$405,171 accrued on Mr. Anstice's behalf for the performance during fiscal year 2012 under the 2011/2012 Cash LTIP, and \$303,578 accrued on Mr. Anstice's behalf for

- the performance during fiscal year 2012 under the 2012/2013 Cash LTIP. Mr. Anstice has received the amounts accrued under the 2010/2011 Cash LTIP, and will be eligible to receive the amounts accrued under the 2011/2012 and 2012/2013 Cash LTIPs if he remains employed by the Company through the respective award determination dates in February 2013 and February 2014.
- (7) Represents \$629,285 earned by Mr. Anstice under the 2010 AIP, \$433,868 accrued on Mr. Anstice's behalf for performance during fiscal year 2011 under the 2009/2010 Cash LTIP, \$1,033,893 accrued on Mr. Anstice's behalf for performance during fiscal year 2011 under the 2010/2011 Cash LTIP, and \$421,785 accrued on Mr. Anstice's behalf for performance during fiscal year 2011 under the 2011/2012 Cash LTIP. Mr. Anstice has received the amounts accrued under the 2009/2010 and 2010/2011 Cash LTIPs, and will be eligible to receive the amounts accrued under the 2011/2012 Cash LTIPs if he remains employed by the Company through the award determination date in February 2013.
- (8) Represents \$287,482 earned by Mr. Anstice under the 2009 AIP, \$238,722 accrued on Mr. Anstice's behalf for performance during fiscal year 2010 under the 2008/2009 Cash LTIP, \$464,637 accrued on Mr. Anstice's behalf for performance during fiscal year 2010 under the 2009/2010 Cash LTIP, and \$394,601 accrued on Mr. Anstice's behalf for performance during fiscal year 2010 under the 2010/2011 Cash LTIP. Mr. Anstice has received the amounts accrued under the 2008/2009, 2009/2010, and 2010/2011 Cash LTIPs.
- (9) Represents \$416,823 earned by Mr. Maddock under the 2011 AIP, \$187,149 accrued on Mr. Maddock's behalf for performance during fiscal year 2012 under the 2010/2011 Cash LTIP, \$270,114 accrued on Mr. Maddock's behalf for performance during fiscal year 2012 under the 2011/2012 Cash LTIP, and \$138,779 accrued on Mr. Maddock's behalf for performance during fiscal year 2012 under the 2012/2013 Cash LTIP. Mr. Maddock has received the amounts accrued under the 2010/2011 Cash LTIP, will be eligible to receive the amounts accrued under the 2011/2012 and 2012/2013 Cash LTIPs if he remains employed by the Company through the respective award determination dates in February 2013 and February 2014.
- (10) Represents \$591,375 earned by Mr. Maddock under the 2010 AIP, \$396,679 accrued on Mr. Maddock's behalf for performance during fiscal year 2011 under the 2009/2010 Cash LTIP, \$827,114 accrued on Mr. Maddock's behalf for performance during fiscal year 2011 under the 2010/2011 Cash LTIP, and \$281,190 accrued on Mr. Maddock's behalf for performance during fiscal year 2011 under the 2011/2012 Cash LTIP. Mr. Maddock has received the amounts accrued under the 2009/2010 and 2010/2011 Cash LTIPs, and will be eligible to receive the amounts accrued under the 2011/2012 Cash LTIPs if he remains employed by the Company through the award determination date in February 2013.
- (11) Represents \$266,028 earned by Mr. Maddock pursuant to the 2009 AIP, \$218,260 accrued on Mr. Maddock's behalf for performance during fiscal year 2010 under the 2008/2009 Cash LTIP, \$424,811 accrued on Mr. Maddock's behalf for performance during fiscal year 2010 under the 2009/2010 Cash LTIP, and \$315,681 accrued on Mr. Maddock's behalf for performance during fiscal year 2010 under the 2010/2011 Cash LTIP. Mr. Maddock has received the amounts accrued under the 2008/2009, 2009/2010, and 2010/2011 Cash LTIPs.
- (12) Represents \$339,032 earned by Dr. Gottscho under the 2011 AIP, \$157,907 accrued on Dr. Gottscho's behalf for performance during fiscal year 2012 under the 2010/2011 Cash LTIP, \$270,114 accrued on Dr. Gottscho's behalf for performance during fiscal year 2012 under the 2011/2012 Cash LTIP, and \$138,779 accrued on Dr. Gottscho's behalf for performance during fiscal year 2012 under the 2012/2013 Cash LTIP. Dr. Gottscho has received the amounts accrued under the 2010/2011 Cash LTIP, will be eligible to receive the amounts accrued under the 2011/2012 and 2012/2013 Cash LTIPs if he remains employed by the Company through the respective award determination dates in February 2013 and February 2014.
- (13) Represents \$508,144 earned by Dr. Gottscho under the 2010 AIP, \$312,385 accrued on Dr. Gottscho's behalf for performance during fiscal year 2011 under the 2009/2010 Cash LTIP, \$697,878 accrued on Dr. Gottscho's behalf for performance during fiscal year 2011 under the 2010/2011 Cash LTIP, and \$281,190 accrued on Dr. Gottscho's behalf for performance during fiscal year 2011 under the 2011/2012 Cash LTIP. Dr. Gottscho has received the amounts accrued under the 2009/2010 and 2010/2011 Cash LTIPs, and will be eligible to receive the amounts accrued under the 2011/2012 Cash LTIP if he remains employed by the Company through the award determination date in February 2013.

- (14) Represents \$222,539 earned by Dr. Gottscho under the 2009 AIP, \$171,880 accrued on Dr. Gottscho's behalf for performance during fiscal year 2010 under the 2008/2009 Cash LTIP, \$334,538 accrued on Dr. Gottscho's behalf for performance during fiscal year 2010 under the 2009/2010 Cash LTIP, and \$266,355 accrued on Dr. Gottscho's behalf for performance during fiscal year 2010 under the 2010/2011 Cash LTIP. Dr. Gottscho has received the amounts accrued under the 2008/2009, 2009/2010, and 2010/2011 Cash LTIPs.
- (15) Represents \$308,868 earned Ms. O'Dowd under the 2011 AIP, \$146,210 accrued on Ms. O'Dowd's behalf for performance during fiscal year 2012 under the 2010/2011 Cash LTIP, and \$211,027 accrued on Ms. O'Dowd's behalf for performance during fiscal year 2012 under the 2011/2012 Cash LTIP and \$108,421 accrued on Ms. O'Dowd's behalf for performance during fiscal year 2012 under the 2012/2013 Cash LTIP. Ms. O'Dowd has received the amounts accrued under the 2010/2011 Cash LTIP, will be eligible to receive the amounts accrued under the 2011/2012 and 2012/2013 Cash LTIPs if she remains employed by the Company through the respective award determination dates in February 2013 and February 2014.
- (16) Represents \$435,498 earned by Ms. O'Dowd under the 2010 AIP, \$309,906 accrued on Ms. O'Dowd's behalf for performance during fiscal year 2011 under the 2009/2010 Cash LTIP, \$646,183 accrued on Ms. O'Dowd's behalf for performance during fiscal year 2011 under the 2010/2011 Cash LTIP, and \$219,680 accrued on Ms. O'Dowd's behalf for performance during fiscal year 2011 under the 2011/2012 Cash LTIP. Ms. O'Dowd has received the amounts accrued under the 2009/2010 and 2010/2011 Cash LTIPs, and will be eligible to receive the amounts accrued under the 2011/2012 Cash LTIP if she remains employed by the Company through the award determination date in February 2013.
- (17) Represents \$194,068 earned by Dr. Srinivasan under the 2012 AIP, \$135,057 accrued on Dr. Srinivasan's behalf for performance during fiscal year 2012 under the 2011/2012 Cash LTIP and \$86,737 accrued on Dr. Srinivasan's behalf during fiscal year 2012 under the 2012/2013 Cash LTIP. Dr. Srinivasan has received the amounts accrued under the 2011/2012 Cash LTIP and will be eligible to receive the amounts accrued under the 2011/2012 Cash LTIP if he remains employed by the Company through the award determination date in February 2013.
- (18) Represents \$1,244,414 earned by Mr. Newberry under the 2011 AIP, \$526,357 accrued on Mr. Newberry's behalf for performance during fiscal year 2012 under the 2010/2011 Cash LTIP and \$759,696 accrued on Mr. Newberry's behalf for performance during fiscal year 2012 under the 2011/2012 Cash LTIP. Mr. Newberry has received the amounts accrued under the 2010/2011 Cash LTIP, and will be eligible to receive the amounts accrued under the 2011/2012 if he remains employed by the Company through the award determination date in February 2013.
- (19) Represents \$2,166,049 earned by Mr. Newberry under the 2010 AIP, \$991,698 accrued on Mr. Newberry's behalf for performance during fiscal year 2011 under the 2009/2010 Cash LTIP, \$2,326,259 accrued on Mr. Newberry's behalf for performance during fiscal year 2011 under the 2010/2011 Cash LTIP, and \$790,847 accrued on Mr. Newberry's behalf for performance during fiscal year 2011 under the 2011/2012 Cash LTIP. Mr. Newberry has received the amounts accrued under the 2009/2010 and 2010/2011 Cash LTIPs, and will be eligible to receive the amounts accrued under the 2011/2012 Cash LTIP if he remains employed by the Company through the award determination date in February 2013.
- (20) Represents \$715,760 earned by Mr. Newberry under the 2009 AIP, \$545,650 accrued on Mr. Newberry's behalf for performance during fiscal year 2010 under the 2008/2009 Cash LTIP, \$1,062,026 accrued on Mr. Newberry's behalf for performance during fiscal year 2010 under the 2009/2010 Cash LTIP, and \$887,851 accrued on Mr. Newberry's behalf for performance during fiscal year 2010 under the 2010/2011 Cash LTIP. Mr. Newberry has received the amounts accrued under the 2008/2009, 2009/2010, and 2010/2011 Cash LTIPs.

**All Other Compensation for Fiscal Year 2012**

Name	Fiscal Year	Company Matching Contribution to the Company's 401(k) Plan	Company Paid Long-Term Disability Insurance Premiums <sup>(1)</sup>	Company Paid Life Insurance Premiums <sup>(2)</sup>	Company Paid Healthcare Insurance Premiums <sup>(3)</sup>	Company Contribution to the Elective Deferred Compensation Plan	Gross Up <sup>(4)</sup>	Total
Martin B. Anstice	2012	\$8,876	\$ 0	\$1,236	\$9,725	\$2,500	\$ 0	\$22,337
Ernest E. Maddock	2012	\$6,574	\$ 929	\$1,236	\$8,975	\$ 699	\$ 0	\$18,413
Richard A. Gottscho	2012	\$7,545	\$1,174	\$1,236	\$9,129	\$ 0	\$ 875	\$19,959
Sarah A. O'Dowd	2012	\$2,644	\$ 0	\$1,236	\$8,975	\$2,500	\$ 0	\$15,355
Mukund Srinivasan	2012	\$7,575	\$ 0	\$1,236	\$9,725	\$ 0	\$1,854	\$20,390
Stephen G. Newberry	2012	\$ 0	\$ 370	\$1,236	\$9,725	\$ 0	\$ 0	\$11,331

- (1) Represents the portion of supplemental long term disability insurance premiums paid by the Company.  
(2) Represents the portion of life insurance premiums paid by the Company.  
(3) Represents the portion of executive dental and executive medical reimbursement insurance premiums paid by the Company.  
(4) Represents the portion of gross up tax amount applied to Bonus paid for applicable Federal, State, and local laws.

**Grants of Plan-Based Awards for Fiscal Year 2012**

Name	Award Type	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards Target (#) <sup>(2)</sup>	All Other Stock Awards: Number of Shares or Units (#) <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options (#)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(4)</sup>
				Target (\$) <sup>(1)</sup>	Maximum (\$)				
Martin B. Anstice	Annual Incentive Program	N/A	2/7/2012	\$ 831,000	\$1,870,000	0	0	0	\$ 0
	Equity LTIP	2/7/2012	2/7/2012	\$ 0	\$ 0	0	40,341	0	\$1,749,993
	Cash LTIP	N/A	2/7/2012	\$1,750,000	\$4,375,000	0	0	0	\$ 0
Ernest E. Maddock	Annual Incentive Program	N/A	2/6/2012	\$ 412,000	\$ 927,000	0	0	0	\$ 0
	Equity LTIP	2/7/2012	2/6/2012	\$ 0	\$ 0	0	18,441	0	\$ 799,971
	Cash LTIP	N/A	2/6/2012	\$ 800,000	\$2,000,000	0	0	0	\$ 0
Richard A. Gottscho	Annual Incentive Program	N/A	2/6/2012	\$ 372,000	\$ 837,000	0	0	0	\$ 0
	Equity LTIP	2/7/2012	2/6/2012	\$ 0	\$ 0	0	18,441	0	\$ 799,971
	Cash LTIP	N/A	2/6/2012	\$ 800,000	\$2,000,000	0	0	0	\$ 0
Sarah A. O'Dowd	Annual Incentive Program	NA	2/6/2012	\$ 290,000	\$ 653,000	0	0	0	\$ 0
	Equity LTIP	2/7/2012	2/6/2012	\$ 0	\$ 0	0	14,407	0	\$ 624,976
	Cash LTIP	NA	2/6/2012	\$ 625,000	\$1,562,500	0	0	0	\$ 0
Mukund Srinivasan	Annual Incentive Program	NA	4/2/2012	\$ 228,000	\$ 513,000	0	0	0	\$ 0
	Equity LTIP	4/27/2012	4/24/2012	\$ 0	\$ 0	0	11,884	0	\$ 499,960
	Cash LTIP	NA	4/24/2012	\$ 500,000	\$1,250,000	0	0	0	\$ 0
	Time-based RSU	3/2/2012	2/27/2012	\$ 0	\$ 0	0	8,000	0	\$ 328,320
Stephen G. Newberry	Annual Incentive Program	N/A	N/A	\$ 0	\$ 0	0	0	0	\$ 0
	Equity LTIP	N/A	N/A	\$ 0	\$ 0	0	0	0	\$ 0
	Cash LTIP	N/A	N/A	\$ 0	\$ 0	0	0	0	\$ 0

- (1) Base salary used to calculate the Annual Incentive Program (“AIP”) goal was base salary approved in February 2012. Actual base earnings under the AIP could be different.  
(2) Represents RSUs with performance-based vesting.

- (3) Represents RSUs with service-based vesting.
- (4) The amounts shown in this column represent the value of restricted stock unit awards granted during fiscal year 2012 in accordance with ASC 718. However, pursuant to SEC rules, these values are not reduced by an estimate for the probability of forfeiture. The assumptions used to calculate the fair value of the restricted stock units in fiscal year 2012 are set forth in Note 11 in the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended June 24, 2012.

### Outstanding Equity Awards at 2012 Fiscal Year-End

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(1)</sup>	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(1)</sup>
Martin B. Anstice . . . . .	0	0	\$ 0	N/A	40,341 <sup>(2)</sup>	\$1,530,941	0	\$ 0
	0	0	\$ 0	N/A	10,296 <sup>(3)</sup>	\$ 390,733	10,296 <sup>(4)</sup>	\$390,733
	29,120 <sup>(5)</sup>	0	\$20.21	2/26/2014	0	\$ 0	0	\$ 0
Ernest E. Maddock . . . . .	0	0	\$ 0	N/A	18,441 <sup>(2)</sup>	\$ 699,836	0	\$ 0
	0	0	\$ 0	N/A	6,864 <sup>(3)</sup>	\$ 260,489	6,864 <sup>(4)</sup>	\$260,489
	24,480 <sup>(5)</sup>	0	\$20.21	2/26/2014	0	\$ 0	0	\$ 0
Richard A. Gottscho . . . . .	0	0	\$ 0	N/A	18,441 <sup>(2)</sup>	\$ 699,836	0	\$ 0
	0	0	\$ 0	N/A	6,864 <sup>(3)</sup>	\$ 260,489	6,864 <sup>(4)</sup>	\$260,489
Sarah A. O'Dowd . . . . .	0	0	\$ 0	N/A	14,407 <sup>(2)</sup>	\$ 546,746	0	\$ 0
	0	0	\$ 0	N/A	5,362 <sup>(3)</sup>	\$ 203,488	5,362 <sup>(4)</sup>	\$203,488
	38,658 <sup>(5)</sup>	0	\$20.21	2/26/2014	0	\$ 0	0	\$ 0
Mukund Srinivasan . . . . .	0	0	\$ 0	N/A	4,000 <sup>(6)</sup>	\$ 151,800	0	\$ 0
	0	0	\$ 0	N/A	11,884 <sup>(7)</sup>	\$ 450,998	0	\$ 0
	0	0	\$ 0	N/A	3,432 <sup>(3)</sup>	\$ 130,244	3,432 <sup>(4)</sup>	\$130,244
	0	0	\$ 0	N/A	2,866 <sup>(8)</sup>	\$ 108,765	0	\$ 0
Stephen G. Newberry . . . . .	0	0	\$ 0	N/A	19,306 <sup>(3)</sup>	\$ 732,663	19,306 <sup>(4)</sup>	\$732,663
	123,700 <sup>(5)</sup>	0	\$20.21	2/26/2014	0	\$ 0	0	\$ 0

- (1) Calculated by multiplying the number of unvested shares by \$37.95, the closing price per share of our common stock on June 22, 2012.
- (2) RSUs were granted on February 7, 2012. On February 7, 2014, 100% of the RSUs will vest provided that the person remains an employee on such date.
- (3) RSUs were granted on March 4, 2011. On March 3, 2013, 100% of the RSUs will vest provided that the person remains an employee on such date.
- (4) RSUs were granted on March 4, 2011 and are subject to performance criteria and continued service. On March 4, 2013, 100% of the RSUs will vest provided that the performance criteria have been met and the person remains an employee on such date.
- (5) Options were granted on February 26, 2009. On February 26, 2011, 100% of the options vested.
- (6) RSUs were granted on March 2, 2012. As of the 2012 fiscal year-end, 50% of the RSUs granted on March 2, 2012 had vested. On September 2, 2012, half of the remaining unvested RSUs vested, and on December 2, 2012, the remaining unvested RSUs will vest provided that the person remains an employee on such date.
- (7) RSUs were granted on April 27, 2012. On each of November 13, 2013 and May 13, 2014, 33% of the RSUs will vest, and on August 12, 2014, 34% will vest provided that the person remains an employee on such date.
- (8) RSU were grant on February 17, 2010. On July 15, 2012, 100% of the RSUs will vest provided that the person remains an employee on such date.

### Option Exercises and Stock Vested for Fiscal Year 2012

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Martin B. Anstice .....	0	\$0	30,038	\$1,312,961
Ernest E. Maddock .....	0	\$0	24,030	\$1,050,351
Richard A. Gottscho .....	0	\$0	32,276	\$1,330,504
Sarah A. O'Dowd .....	0	\$0	18,774	\$ 820,612
Mukund Srinivasan .....	0	\$0	18,619	\$ 753,048
Stephen G. Newberry .....	0	\$0	67,586	\$2,959,253

- (1) The table shows all stock options exercised and the value realized upon exercise, and all stock awards vested and the value realized upon vesting, by the NEOs during fiscal year 2012, which ended on June 24, 2012.

### Non-Qualified Deferred Compensation for Fiscal Year 2012

Name	Executive Contributions in FY12	Registrant Contributions in FY12 <sup>(1)</sup>	Aggregate Earnings in FY12 <sup>(2)</sup>	Aggregate Withdrawals/ Distributions in FY12	Aggregate Balance at FYE12
Martin B. Anstice .....	\$ 775,969 <sup>(3)</sup>	\$2,500	(\$ 66,824)	\$0	\$ 3,032,350
Ernest E. Maddock .....	\$1,074,139 <sup>(4)</sup>	\$ 699	\$ 284,802	\$0	\$10,654,434
Richard A. Gottscho .....	\$ 0	\$ 0	\$ 76,304	\$0	\$ 1,601,376
Sarah A. O'Dowd .....	\$1,050,923 <sup>(5)</sup>	\$2,500	(\$ 29,452)	\$0	\$ 1,407,264
Mukund Srinivasan .....	\$ 0	\$ 0	\$ 0	\$0	\$ 0
Stephen G. Newberry .....	\$ 0	\$ 0	\$ 58,266	\$0	\$ 1,284,083

- (1) Represents the amount that the Company credited to the Elective Deferred Compensation Plan ("EDCP"), which is 3% of Executive Contribution during calendar year 2011, to a maximum benefit of \$2,500. These amounts are included in the Summary Compensation and All Other Compensation tables.
- (2) The NEOs did not receive above-market or preferential earnings in fiscal year 2012.
- (3) Executive contributions in fiscal year 2012 include \$457,257 reported in our fiscal year 2012 Summary Compensation Table, \$215,680 reported in our fiscal year 2011 Summary Compensation Table and \$103,032 reported in our fiscal year 2010 Summary Compensation Table.
- (4) Executive contributions in fiscal year 2012 include \$578,678 reported in our fiscal year 2012 Summary Compensation Table, \$330,609 reported in our fiscal year 2011 Summary Compensation Table and \$164,852 reported in our fiscal year 2010 Summary Compensation Table.
- (5) Executive contributions in fiscal year 2012 include \$653,014 reported in our fiscal year 2012 Summary Compensation Table, \$269,119 reported in our fiscal year 2011 Summary Compensation Table and \$128,790 reported in our fiscal year 2010 Summary Compensation Table.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

### Executive Employment Agreements

#### *Martin B. Anstice*

The Company and Mr. Anstice entered into an employment agreement, effective January 1, 2012, for a term of three years, subject to the right of the Company or Mr. Anstice, under certain circumstances, to terminate the agreement prior to such time.

Under the terms of the agreement, Mr. Anstice will receive a base salary of \$665,000, which will be reviewed annually and potentially adjusted. Mr. Anstice is also entitled to participate in any short-term or long-term variable compensation programs offered by the Company to its executive officers generally, subject to the applicable terms and conditions of those programs and the approval of the independent members of the board, and to participate in the Company's Elective Deferred Compensation Plan. Mr. Anstice receives other benefits, such as health insurance, vacation, and benefits under other plans and programs generally applicable to executive officers of the Company.

If an Involuntary Termination (as defined in Mr. Anstice's agreement) of Mr. Anstice's employment occurs, other than in connection with a change in control (as defined in the agreement), Mr. Anstice will be entitled to: (1) a lump-sum cash payment equal to 18 months of his then-current base salary, plus an amount equal to the average of the last five annual payments made to Mr. Anstice under the short term variable compensation or any predecessor or successor programs (the "Short Term Program," and such average, the "Five Year Average Amount"), plus an amount equal to the pro-rata amount he would have earned under the Short Term Program for the calendar year in which his employment is terminated had his employment continued until the end of such calendar year, such pro-rata portion to be calculated based on the performance results achieved under the Short Term program and the number of full months elapsed prior to the termination date; (2) payment of any amounts accrued as of the date of termination under any long-term cash-based variable-compensation programs of the Company (the "Long Term Cash Programs"); (3) certain medical benefits; and (4) vesting, as of the date of termination, of a pro rata portion (based on time of service) of the unvested stock option or RSU awards granted to Mr. Anstice at least twelve months prior to the termination date.

If a Change in Control of the Company (as defined in Mr. Anstice's agreement) occurs during the period of Mr. Anstice's employment, and if there is an Involuntary Termination of Mr. Anstice's employment either in contemplation of or within the 12 months following the change in control, Mr. Anstice will be entitled to: a lump-sum cash payment equal to 18 months of Mr. Anstice's then-current base salary, plus an amount equal to the Five Year Average Amount, plus an additional amount equal to the amount he would have earned under the Short Term Program for the calendar year in which his employment is terminated multiplied by the number of full months worked in that calendar year divided by twelve; certain medical benefits; vesting, as of the date of termination, of the unvested stock option or RSU awards granted to Mr. Anstice prior to the change in control; and payment of any amounts accrued as of the change in control under the Long Term Cash Programs, plus an amount equal to the remaining target amount under the Long Term Cash Programs.

If Mr. Anstice's employment is terminated due to disability or in the event of his death, Mr. Anstice (or his estate) will be entitled to: (1) the pro-rata amount he would have earned under the Short Term Program for the calendar year in which his employment is terminated had his employment continued until the end of such calendar year, such pro-rata portion to be calculated based on the performance results achieved under the Short Term Program and the number of full months elapsed prior to the termination date; (2) payment of any amounts accrued as of the date of termination under the Long Term Cash Programs; (3) certain medical benefits; and (4) vesting, as of the date of termination, of at least 50% of the unvested stock option or RSU awards granted to Mr. Anstice prior to the date of termination (or a pro rata amount, based on period of service, if greater than 50%).

If Mr. Anstice voluntarily resigns, he will be entitled to no additional benefits (except as he may be eligible for under the Executive Retiree Medical Plan), stock options and RSUs will cease to vest on the termination date, and stock options will be cancelled unless they are exercised within ninety days after the termination date. RSUs will be cancelled on the termination date.

Mr. Anstice's agreement also subjects Mr. Anstice to customary confidentiality and non-competition obligations during the term of the agreement, and non-solicitation obligations for a period of six months following the termination of his employment. The agreement also requires Mr. Anstice to execute a release in favor of the Company to receive the payments described above.

*Ernest E. Maddock*

The Company and Mr. Maddock entered into an employment agreement, effective July 1, 2009, for a term of three years, subject to the right of the Company or Mr. Maddock, under certain circumstances, to terminate the agreement prior to such time. The terms of Mr. Maddock's agreement are substantively similar to those of Mr. Anstice's agreement, with the following material differences: Mr. Maddock will receive a base salary and, effective April 2012, this base salary was adjusted to \$485,000.

The severance terms of Mr. Maddock's agreement are generally similar to those of Mr. Anstice's agreement, provided that (1) Mr. Maddock will receive 12 months base salary instead of 18 months in the event of his Involuntary Termination; and (2) instead of a payment of the Five Year Average Amount, he will receive a payment of 50% of the Five Year Average Amount. The change in control terms of Mr. Maddock's agreement are generally similar to those of Mr. Anstice's agreement, provided that Mr. Maddock will receive 12 months base salary instead of 18 months in the event of his Involuntary Termination. After the end of the fiscal year, the Company and Mr. Maddock entered into an employment agreement effective July 18, 2012 for a term of three years with the same terms as the expiring agreement.

After the end of the fiscal year, the Company and Mr. Maddock entered into a new employment agreement, effective July 18, 2012, for a term of three years, subject to the right of the Company or Mr. Maddock under certain circumstances, to terminate the agreement prior to such time. Mr. Maddock's new employment agreement has the same terms as his prior agreement.

*Timothy M. Archer*

The Company and Mr. Archer entered into an employment agreement, effective June 4, 2012, for a term of three years, subject to the right of the Company or Mr. Archer, under certain circumstances, to terminate the agreement prior to such time. The terms of Mr. Archer's agreement are substantively similar to those of Mr. Anstice's agreement, with the following material differences: Mr. Archer will receive a base salary, and this base salary is \$550,000. Mr. Archer is not an NEO for fiscal year 2012; and his agreement includes a retention bonus. His contract is described here because he is our COO and for completeness.

The severance terms of Mr. Archer's agreement are generally similar to those of Mr. Anstice's agreement, provided that (1) Mr. Archer will receive 12 months base salary instead of 18 months in the event of his Involuntary Termination; and (2) instead of a payment of the Five Year Average Amount, he will receive a payment of 50% of the Five Year Average Amount. The change in control terms of Mr. Archer's agreement are generally similar to those of Mr. Anstice's agreement, provided that Mr. Archer will receive 12 months base salary instead of 18 months in the event of his Involuntary Termination.

Other Executive Agreements

The Company entered into change in control agreements with Dr. Gottscho and Ms. O'Dowd, effective July 1, 2009, for a term of three years, subject to the right of the Company or the executive, under certain circumstances, to terminate the agreement prior to such time. The agreements provide that if a change in control (as defined as in Mr. Anstice's agreement) of the Company occurs during the period of their employment under the change in control agreement, and there is an Involuntary Termination (as defined as in Mr. Anstice's agreement) of the executive's employment, the executive will be entitled to payments and benefits substantively similar to those contained in the change in control provisions of Mr. Maddock's agreement.



The change in control agreements contain confidentiality, non-competition, and non-solicitation terms that are substantively similar to those of Mr. Anstice's and Mr. Maddock's agreements, and require Dr. Gottscho and Ms. O'Dowd to execute releases in favor of the Company to receive the payments described in the previous paragraph.

After the end of the fiscal year, the Company and Dr. Gottscho entered into an employment agreement, effective July 18, 2012, for a term of three years, subject to the right of the Company or Dr. Gottscho, under certain circumstances, to terminate the agreement prior to such time. The terms of Dr. Gottscho's agreement are substantively similar to those of Mr. Maddock's July 18, 2012 employment agreement.

Also after the end of the fiscal year, the Company and Ms. O'Dowd entered into a change in control agreement, effective July 18, 2012, for a term of three years, with the same terms as her prior agreement.

#### Vice Chairman of the Board Employment Agreement

The terms of Stephen G. Newberry's agreement provide that Mr. Newberry shall serve as the Company's Vice Chairman, for a term commencing on January 1, 2012 and ending on December 31, 2014, subject to the right of the Company or Mr. Newberry, under certain circumstances, to terminate the agreement prior to December 31, 2014, and provided that Mr. Newberry's employment under the agreement will terminate upon his death or disability, as defined in the Newberry Agreement.

Under Mr. Newberry's agreement, Mr. Newberry will receive a base salary of \$500,000 per year, subject to annual adjustment at the discretion of the Board. That amount will be paid solely in cash during 2012, and during 2013 and 2014 will be paid partially in cash, and partially in restricted stock units, as described in the agreement. Mr. Newberry will continue to vest in his current 2011/2012 Long-Term Incentive Plan, but he will not be eligible for future awards under the Company's short-term or long term variable compensation plans. Mr. Newberry will receive other benefits, such as health insurance, vacation, and other benefit plans and compensation programs generally applicable to executive officers of the Company.

The change in control terms and payment triggers of Mr. Newberry's agreement are generally similar to those of Mr. Anstice's agreement and provide that Mr. Newberry will be entitled to (1) a lump-sum cash payment equal to 12 months of Mr. Newberry's Base Compensation; (2) if as of the termination date, payment has not yet been made under the Short Term Plan that was in effect during the 2011 calendar year, payment of any amounts under the Short Term Plan that was in effect during the 2011 calendar year which Mr. Newberry would have earned (based on the performance results achieved under the plan) if his employment had not been terminated; (3) certain medical benefits; (4) vesting, as of the date of termination, of the unvested portions of any stock option or restricted stock unit awards granted to Mr. Newberry prior to the change in control, and (5) payment of any amounts accrued as of the last full completed quarter as of the change in control under any long-term cash-based variable compensation plans (which will only include the 2011/2012 Long-Term Incentive Plan for Mr. Newberry) of the Company (the "Long Term Plans"), plus an amount equal to the remaining target amount under the Long Term Plans.

If Mr. Newberry is involuntarily terminated other than in connection with a change in control, he will be entitled to (1) a lump-sum cash payment equal to 12 months of Mr. Newberry's base salary; (2) if as of the termination date, payment has not yet been made under the Short Term Plan that was in effect during the 2011 calendar year, payment of any amounts under the Short Term Plan that was in effect during the 2011 calendar year which Mr. Newberry would have earned (based on the performance results achieved under the plan) if his employment had not been terminated; (3) certain medical benefits; and (4) vesting of any unvested stock options or RSUs that were granted 12 months or more before the termination date, in an amount such that the total vested shares under any such awards equals the total number of calendar months worked, divided by the total number of months over which such award vests, multiplied by the number of shares subject to such award; and any Long Term Plans (which will only include the 2011/2012 Long-Term Incentive Plan for Mr. Newberry) which are accrued as of the last full completed quarter prior to the termination date.

In the event of Mr. Newberry's death or disability, he (or his estate) will be entitled to (1) a lump-sum cash payment equal to 12 months of Mr. Newberry's base compensation less, in the case of Mr. Newberry's death, certain insurance payments, and, if as of the termination date, payment has not yet been made under the Short Term Plan that was in effect during the 2011 calendar year, payment of any amounts under the Short Term Plan that was in effect during the 2011 calendar year which Mr. Newberry would have earned (based on the performance results achieved under the plan) if his employment had not been terminated plus; (2) payment of certain accrued but unpaid amounts under any Long Term Plan (which will only include the 2011/2012 Long-Term Incentive Plan for Mr. Newberry); (3) certain medical benefits; and (4) vesting of any unvested stock options or RSUs, in an amount equal to the greater of 50% of such awards or an amount such that the total vested shares under any such awards equals the total number of calendar months worked, divided by the total number of months over which such award vests, multiplied by the number of shares subject to such award.

If Mr. Newberry voluntarily resigns, he will be entitled to no additional benefits (except as he may be eligible for under the Executive Retiree Medical Plan), any unvested stock options will be cancelled 90 days after the date of termination unless earlier exercised. RSUs will be cancelled on the date of termination.

The Newberry Agreement contains confidentiality and non-competition obligations during the term of the agreement, and non-solicitation obligations for a period of six months following the termination of his employment.

#### Equity Plans

In addition to the above, certain of our stock plans provide for accelerated benefits after certain events. While the applicable triggers under each plan vary, these events generally include: (i) a merger or consolidation in which the Company is not the surviving entity, (ii) a sale of substantially all of the Company's assets, including a liquidation or dissolution of the Company, or (iii) a change in the ownership of more than 50% of our outstanding securities by tender offer or similar transaction. After a designated event, the vesting of some or all of awards granted under these plans may be immediately accelerated in full, or certain awards may be assumed, substituted, replaced or settled in cash by a surviving corporation or its parent. The specific treatment of awards in a particular transaction will be determined by the board and/or the terms of the applicable transaction documents.

Potential Payments to Named Executive Officers Upon Termination or Change in Control

The tables below summarize the potential payments to our NEOs, assuming a change in control of the Company as of the end of fiscal year 2012. These amounts are calculated assuming that the employment termination or change in control occurs on the last day of fiscal year 2012, June 24, 2012. The closing price per share of our common stock on June 22, 2012, which was the last trading day of fiscal year 2012, was \$37.95.

**Potential Payments to Mr. Anstice Upon Termination or Change of Control  
as of June 24, 2012**

Executive Benefits and Payments Upon Termination	Voluntary Termination	Involuntary Termination			Change in Control
		Disability or Death	For Cause	Not for Cause	
<b>Compensation</b>					
Severance .....	\$—	\$ —	\$—	\$ 997,500	\$ 997,500
Short-term Incentive (5-year average) .....	\$—	\$ —	\$—	\$ 415,196	\$ 415,196
Short-term Incentive (pro rata 2012) .....	\$—	\$ 415,600	\$—	\$ 415,600	\$ 415,600
Long-term Incentives:					
2011-2012 Cash LTIP .....	\$—	\$ 825,879	\$—	\$ 825,879	\$1,125,879
2012-2013 Cash LTIP .....	\$—	\$ 303,578	\$—	\$ 303,578	\$1,616,078
Stock Options (Unvested and Accelerated) .....	\$—	\$ —	\$—	\$ —	\$ —
Restricted Stock Units (Unvested and Accelerated) .....	\$—	\$1,253,906	\$—	\$ 488,417	\$2,312,407
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit .....	\$—	\$ 22,545	\$—	\$ 22,545	\$ 22,543
<b>Total .....</b>	<b>\$—</b>	<b>\$2,821,508</b>	<b>\$—</b>	<b>\$3,468,715</b>	<b>\$6,905,203</b>

**Potential Payments to Mr. Maddock Upon Termination or Change of Control  
as of June 24, 2012**

Executive Benefits and Payments Upon Termination	Voluntary Termination	Involuntary Termination			Change in Control
		Disability or Death	For Cause	Not for Cause	
<b>Compensation</b>					
Severance .....	\$—	\$ —	\$—	\$ 485,000	\$ 485,000
Short-term Incentive (5-year average) .....	\$—	\$ —	\$—	\$ 190,662	\$ 381,323
Short-term Incentive (pro rata 2012) .....	\$—	\$ 206,181	\$—	\$ 206,181	\$ 206,181
Long-term Incentives:					
2011-2012 Cash LTIP .....	\$—	\$ 550,585	\$—	\$ 550,585	\$ 750,585
2012-2013 Cash LTIP .....	\$—	\$ 138,778	\$—	\$ 138,778	\$ 738,778
Stock Options (Unvested and Accelerated) .....	\$—	\$ —	\$—	\$ —	\$ —
Restricted Stock Units (Unvested and Accelerated) .....	\$—	\$ 675,529	\$—	\$ 325,611	\$1,220,814
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit .....	\$—	\$ 16,796	\$—	\$ 16,796	\$ 16,796
<b>Total .....</b>	<b>\$—</b>	<b>\$1,587,869</b>	<b>\$—</b>	<b>\$1,913,613</b>	<b>\$3,199,477</b>

**Potential Payments to Dr. Gottscho Upon Termination or Change of Control  
as of June 24, 2012**

Executive Benefits and Payments Upon Termination	Voluntary Termination	Involuntary Termination			Change in Control
		Disability or Death	For Cause	Not for Cause	
<b>Compensation</b>					
Severance . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 437,750
Short-term Incentive (5-year average) . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 317,517
Short-term Incentive (pro rata 2012) . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 186,044
Long-term Incentives:					
2011-2012 Cash LTIP . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 750,585
2012-2013 Cash LTIP . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 738,778
Stock Options (Unvested and Accelerated) . . . . .	\$ —	\$ —	\$ —	\$ —	\$ —
Restricted Stock Units (Unvested and Accelerated) . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 1,220,814
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit . . . . .	\$359,000	\$359,000	\$359,000	\$359,000	\$ 359,000
<b>Total</b> . . . . .	<b>\$359,000</b>	<b>\$359,000</b>	<b>\$359,000</b>	<b>\$359,000</b>	<b>\$4,010,488</b>

**Potential Payments to Ms. O'Dowd Upon Termination or Change of Control  
as of June 24, 2012**

Executive Benefits and Payments Upon Termination	Voluntary Termination	Involuntary Termination			Change in Control
		Disability or Death	For Cause	Not for Cause	
<b>Compensation</b>					
Severance . . . . .	\$—	\$—	\$—	\$—	\$ 386,250
Short-term Incentive (5-year average) . . . . .	\$—	\$—	\$—	\$—	\$ 301,524
Short-term Incentive (pro rata 2012) . . . . .	\$—	\$—	\$—	\$—	\$ 144,844
Long-term Incentives:					
2011-2012 Cash LTIP . . . . .	\$—	\$—	\$—	\$—	\$ 586,395
2012-2013 Cash LTIP . . . . .	\$—	\$—	\$—	\$—	\$ 577,171
Stock Options (Unvested and Accelerated) . . . . .	\$—	\$—	\$—	\$—	\$ —
Restricted Stock Units (Unvested and Accelerated) . . . . .	\$—	\$—	\$—	\$—	\$ 953,721
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit . . . . .	\$—	\$—	\$—	\$—	\$ 16,796
<b>Total</b> . . . . .	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>	<b>\$2,966,701</b>

**Potential Payments to Mr. Newberry Upon Termination or Change of Control  
as of June 24, 2012**

Executive Benefits and Payments Upon Termination	Voluntary Termination	Involuntary Termination			Change in Control
		Disability or Death	For Cause	Not for Cause	
<b>Compensation</b>					
Severance .....	\$ —	\$ 500,000*	\$ —	\$ 500,000	\$ 500,000
Short-term Incentive (5-year average) .....	\$ —	\$ 0	\$ —	\$ 0	\$ 0
Short-term Incentive (pro rata 2012) .....	\$ —	\$ 0	\$ —	\$ 0	\$ 0
Long-term Incentives:					
2011-2012 Cash LTIP .....	\$ —	\$ 1,548,522	\$ —	\$ 1,548,522	\$ 2,111,022
2012-2013 Cash LTIP .....	\$ —	\$ 0	\$ —	\$ 0	\$ 0
Stock Options (Unvested and Accelerated) .....	\$ —	\$ 0	\$ —	\$ 0	\$ 0
Restricted Stock Units (Unvested and Accelerated) .....	\$ —	\$ 915,828	\$ —	\$ 915,828	\$ 1,465,325
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit . . . .	\$ 367,000	\$ 367,000	\$ 367,000	\$ 367,000	\$ 367,000
<b>Total</b> .....	<b>\$367,000</b>	<b>3,331,350</b>	<b>\$367,000</b>	<b>3,331,350</b>	<b>\$4,076,347</b>

\* In the case of death, the \$500,000 payment to Mr. Newberry is reduced by amounts payable pursuant to life insurance in Mr. Newberry's name. For fiscal year 2012, the life insurance amount is \$1,000,000, which will reduce this payment to \$0.

Dr. Srinivasan does not have an agreement which would result in any payments upon termination or change in control.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER  
EQUITY COMPENSATION PLANS**

The following table provides information as of June 24, 2012, regarding securities authorized for issuance under the Company’s equity compensation plans. The equity compensation plans of the Company include the 1997 Stock Incentive Plan, the 1999 Stock Option Plan, the 1999 Employee Stock Purchase Plan, the 2007 Stock Incentive Plan, and the 2011 Stock Incentive Plan, each as amended and as may be amended.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights <sup>(4)</sup></u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders . . . . .	3,397,079 <sup>(1)(2)</sup>	\$20.78	17,176,485 <sup>(3)</sup>
Equity compensation plans not approved by security holders . . .	4,836,476 <sup>(5)</sup>	\$25.41	9,370,943 <sup>(6)</sup>
Total . . . . .	<u>8,233,555</u>	\$25.14	<u>26,547,428</u>

- (1) Includes 15,000 shares issuable under the Company’s 1997 Stock Incentive Plan, which expired prior to June 24, 2012. While there are options still outstanding that were issued pursuant to the Plan, no additional grants may be made under it.
- (2) Includes 3,382,079 shares issuable under the Company’s 2007 Stock Incentive Plan, as amended (the “2007 Plan”). The 2007 Plan was adopted by the board in August 2006, approved by the Company’s stockholders in November 2006, and amended by the board in November 2006. The term of the 2007 Plan is ten years from the latest date of any approval, amendment, or restatement of the Plan by the Company’s stockholders. The 2007 Plan reserves for issuance up to 15,000,000 shares of the Company’s common stock.
- (3) Includes 10,646,603 shares available for future issuance under the 1999 Employee Stock Purchase Plan, as amended (the “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. The 1999 ESPP was adopted by the board in September 1998, approved by the stockholders in November 1998, amended by stockholder approval in November 2003, and amended by the board in May 2010. The term of the 1999 ESPP is twenty years from its effective date of September 30, 1998, unless otherwise terminated or extended in accordance with its terms.
- (4) Does not include restricted stock units (“RSUs”).
- (5) Includes 4,836,476 shares issuable under the Company’s 2011 Stock Incentive Plan, as amended. As part of the Novellus acquisition Lam assumed the Novellus Systems, Inc. 2011 Stock Incentive Plan. The 2011 Plan was approved by Novellus shareholders before the acquisition but has not been approved by a separate vote of Company stockholders.
- (6) Includes 9,370,943 shares available for future issuance under the Company’s 2011 Stock Incentive Plan. The 2011 Plan was approved by Novellus shareholders before the acquisition but has not been approved by a separate vote of Company stockholders.

## PROPOSAL NO. 2

### ADVISORY VOTE ON FISCAL YEAR 2012 EXECUTIVE COMPENSATION (“SAY ON PAY”)

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) enables the Company’s stockholders to vote to approve, on an advisory or non-binding basis, the compensation of our named executive officers, as disclosed in this proxy statement in accordance with SEC rules. Although the vote is advisory and is not binding on us or on our board of directors, our compensation committee and, as appropriate, our board, will take into account the outcome of the vote when considering future executive compensation decisions and will evaluate whether any actions are necessary to address stockholder concerns.

We believe that our compensation philosophy has allowed us to attract, retain, and motivate qualified executive officers who have contributed to our success. For more information regarding the compensation of our named executive officers and our compensation philosophy, we encourage you to read the section of this proxy statement entitled “*Executive Compensation and Other Information — Compensation Discussion and Analysis*,” the compensation tables, and the narrative following the compensation tables for a more detailed discussion of our compensation policies and practices.

We are asking for stockholder approval, on an advisory or non-binding basis, of the compensation of our named executive officers in accordance with SEC rules, including section 14A of the Exchange Act. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the policies and practices described in this proxy statement.

Stockholder approval of Proposal No. 2 requires the affirmative vote of a majority of the shares present and cast on the matter, in person or by proxy, at the annual meeting.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL, ON AN  
ADVISORY OR NON-BINDING BASIS, OF PROPOSAL NO. 2.**

### **PROPOSAL NO. 3**

#### **RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Stockholders are being asked to ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2013. Ernst & Young LLP has been the Company's independent registered public accounting firm (independent auditor) since fiscal year 1981.

Approval of Proposal No. 3 will require the affirmative vote of a majority of the outstanding shares of common stock present or represented and voting on the proposal at the annual meeting. Each proxy received by the Proxy Holders will be voted "FOR" the ratification of the appointment of Ernst & Young LLP, unless the stockholder provides other instructions.

Our audit committee meets periodically with Ernst & Young LLP to review both audit and non-audit services performed by Ernst & Young LLP, as well as the fees charged for those 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 LLP, including 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 "*Audit Committee Report*" and the "*Relationship with Independent Registered Public Accounting Firm*" sections elsewhere in this proxy statement.

A representative of Ernst & Young LLP 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.

Stockholder approval of Proposal No. 3 requires the affirmative vote of a majority of the shares present and cast on the matter, in person or by proxy, at the annual meeting.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL NO. 3.**



## AUDIT COMMITTEE REPORT

The Company's management, audit committee and independent registered public accounting firm (Ernst & Young LLP) have specific but different responsibilities relating to Lam's financial reporting. Lam's management is responsible for the financial statements and for the system of internal control and the financial reporting process. Ernst & Young LLP has the responsibility to express an opinion on the financial statements and the system of internal control over financial reporting, based on the audit they conducted in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). The audit committee is responsible for monitoring and overseeing these processes.

In this context and in connection with the audited financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 24, 2012, the audit committee took the following actions:

- Reviewed and discussed the audited financial statements with Company management
- Discussed with Ernst & Young LLP the matters required to be discussed by Rule AU380 of the Public Company Accounting Oversight Board ("PCAOB"), "*Communication with Audit Committees*"
- Reviewed the written disclosures and the letter from Ernst & Young LLP, required by Rule 3526 of the PCAOB, "*Communication with Audit Committees Concerning Independence*," and discussed with Ernst & Young LLP 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 2012 Annual Report on Form 10-K for the fiscal year ended June 24, 2012 for filing with the SEC

This Audit Committee Report shall not be deemed "filed" with the SEC for purposes of federal securities law, and it shall not, under any circumstances, be incorporated by reference into any of the Company's past or future SEC filings. The report shall not be deemed soliciting material.

### AUDIT COMMITTEE

*Eric K. Brandt*

*Catherine P. Lego (Chair)*

*Kim E. Perdikou*

*Delbert A. Whitaker*

**RELATIONSHIP WITH  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Ernst & Young LLP has audited the Company’s consolidated financial statements since the Company’s inception.

**Fees Billed by Ernst & Young LLP**

The table below shows the fees billed by Ernst & Young LLP for audit and other services provided to the Company in fiscal years 2012 and 2011.

<u>Services / Type of Fee</u>	<u>Fiscal Year 2012</u>	<u>Fiscal Year 2011</u>
Audit Fees <sup>(1)</sup> . . . . .	\$ 4,528,332	\$2,854,146
Audit-Related Fees <sup>(2)</sup> . . . . .	684,815	145,880
Tax Fees . . . . .	—	—
All Other Fees <sup>(3)</sup> . . . . .	1,995	1,995
<b>TOTAL</b> . . . . .	<u>\$5,215,1422</u>	<u>\$3,002,021</u>

- (1) Audit fees represent fees for professional services provided in connection with the audits of annual financial statements, and for fiscal year 2012 include review of the Company’s acquisition of Novellus. Audit fees also include reviews of quarterly financial statements, audit services related to other statutory or regulatory filings or engagements, and fees related to Ernst & Young LLP’s audit of the effectiveness of the Company’s internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act.
- (2) Audit-related fees consist of assurance and related services that are reasonably related to the audit or review of the Company’s financial statements and are not reported above under “Audit Fees” and include fees related to accounting due diligence review associated with the Company’s acquisition of Novellus during fiscal year 2012.
- (3) Other fees represent subscription fees to Ernst & Young LLP’s accounting research service.

The audit committee reviewed summaries of the services provided by Ernst & Young LLP and the related fees during fiscal year 2012 and has determined that the provision of non-audit services was compatible with maintaining the independence of Ernst & Young LLP as the Company’s independent registered public accounting firm. The audit committee approved 100% of the services and related fee amounts for services provided by Ernst & Young LLP during fiscal year 2012.

**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 decisions 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 Company’s 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 Company’s independent registered public accounting firm pursuant to any such pre-approval.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

No family relationships exist or existed during fiscal year 2012 among any of the Company's directors and executive officers. No related-party transactions occurred during fiscal year 2012.

## OTHER MATTERS

We are not aware of any other matters to be submitted to the annual meeting. If any other matters properly come before the annual meeting, the Proxy Holders intend to vote the shares they represent as the board of directors may recommend or, if the board does not make a recommendation, as the Proxy Holders decide in their reasonable judgment.

It is important that your stock holdings be represented at the meeting, regardless of the number of shares you hold. We urge you to complete and return the accompanying proxy card in the enclosed envelope, or vote your shares by telephone or internet, as described in the materials accompanying this proxy statement.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Sarah A. O'Dowd". The signature is written in a cursive style with a large initial "S" and a distinct "O" in "Dowd".

Sarah A. O'Dowd  
*Secretary*

Fremont, California  
Dated: September 21, 2012

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended June 24, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-12933

**LAM RESEARCH CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

94-2634797  
(I.R.S. Employer  
Identification No.)

4650 Cushing Parkway  
Fremont, California  
(Address of principal executive offices)

94538  
(Zip code)

Registrant's telephone number, including area code: (510) 572-0200

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of exchange on which registered
Common Stock, Par Value \$0.001 Per Share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  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 25, 2011, the last business day of the most recently completed second fiscal quarter with respect to the fiscal year covered by this Form 10-K, was \$3,659,876,227. 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 14, 2012, the Registrant had 182,306,362 outstanding shares of Common Stock.

**Documents Incorporated by Reference**

Parts of the Registrant's Proxy Statement for the Annual Meeting of Stockholders expected to be held on or about November 1, 2012 are incorporated by reference into Part III of this Form 10-K. (However, the Reports of the Audit Committee and Compensation Committee are expressly not incorporated by reference herein.)

**LAM RESEARCH CORPORATION**  
**2012 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. Certain, but not all, of the forward-looking statements in this report are specifically identified as forward-looking, by use of phrases and words such as “we believe,” “we anticipate,” “we expect,” “may,” “should,” “could,” and other future-oriented terms. The identification of certain statements as “forward-looking” is not intended to mean that other statements not specifically identified are not forward-looking. Forward-looking statements include, but are not limited to, statements that relate to our future revenue, shipments, costs, earnings, income, and margins, product development, demand, acceptance and market share, competitiveness, market opportunities, levels of research and development (R&D), the success of our marketing, sales and service efforts, outsourced activities and operating expenses, anticipated manufacturing, customer and technical requirements, the ongoing viability of the solutions that we offer and our customers’ success, tax expenses, our management’s plans and objectives for our current and future operations and business focus, the levels of customer spending, general economic conditions, 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 without limitation those discussed below under the heading “Risk Factors” within Item 1A and elsewhere in this report and other documents we file from time to time with the Securities and Exchange Commission (the “SEC”), 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 our actual results to differ materially from those expressed in this report and in ways we cannot readily foresee. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on information currently and reasonably known to us. We do not undertake any obligation to release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances that occur after the date of this report or to reflect the occurrence or effect of anticipated or unanticipated events.*

#### **Item 1. Business**

Incorporated in 1980, Lam Research Corporation (“Lam Research,” “Lam,” “we,” or the “Company”) is a Delaware corporation, headquartered in Fremont, California, and maintains a network of facilities throughout Asia, Europe, and North America in order to meet the needs of its global customer base.

Additional information about Lam Research is available on our website at [www.lamresearch.com](http://www.lamresearch.com).

Our Annual Report on Form 10-K, Quarterly Reports on Forms 10-Q, Current Reports on Forms 8-K, and any amendments to those reports are available on our website as soon as reasonably practical after we file them with or furnish them to the SEC and are also available online at the SEC’s website at <http://www.sec.gov>.

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All references to fiscal years apply to our fiscal years, which ended June 24, 2012, June 26, 2011, and June 27, 2010.

Lam acquired Novellus Systems, Inc. (“Novellus”) on June 4, 2012. As a result of the Novellus acquisition, Lam has enhanced its role as a leading supplier of wafer fabrication equipment and services to the worldwide semiconductor industry. In addition, Lam is better positioned to serve our customer base by leveraging our

technical expertise across a broader portfolio of product to address the increasingly complex business of manufacturing integrated circuits. Lam Research has been a leading supplier of wafer fabrication equipment and services for more than thirty years by contributing to the advancement of semiconductor manufacturing processes that have led to the proliferation of a variety of electronic products that impact our everyday lives, including cell phones, computers, memory, and networking equipment. The Company's customer base includes leading semiconductor memory, foundry, and integrated device manufacturers ("IDMs") that make integrated circuits for these products such as DRAM, NAND, and logic devices.

We design, manufacture, market, refurbish, and service semiconductor processing equipment used in the fabrication of integrated circuits. Semiconductor wafers are subjected to a complex series of process and preparation steps that result in the simultaneous creation of many individual integrated circuits. Our products are used by every major semiconductor device manufacturer for their leading edge devices. Today, foundry customers are manufacturing leading edge devices at the 28nm technology node.

We leverage our expertise in semiconductor device processing to develop technology and productivity solutions that typically benefit our customers through lower defect rates, enhanced yields, faster processing time, and/or reduced cost. Many of the technical advances that we introduce in our newest products are also available as upgrades to our installed base of equipment; this is a benefit that can provide customers with a cost-effective strategy for extending the performance and capabilities of their existing wafer fabrication lines.

We are the market leader in plasma etch, a highly critical process step which shapes the microscopic conductive and dielectric/insulating layers into circuits that define a chip's final use and function. In addition, we offer a broad portfolio of single-wafer clean technologies, which allows our customers to implement customized yield-enhancing solutions. With the acquisition of Novellus, we have expanded into the areas of thin-film deposition and surface preparation which, like single-wafer clean, are process steps often adjacent to etch. During deposition, alternating thin-film conductive and dielectric layers are applied to create metal wiring and insulating structures. These technologies, together with other process steps, enable customers to build some of the world's highest-performing integrated circuits. With each successive technology node, additional requirements and challenges drive the need for advanced manufacturing solutions. We strive to consistently deliver these advanced capabilities with cost-effective production performance. Lam Research understands the close relationship between customer trust and the timely delivery of new solutions that leads to shared success with our customers.

Our Customer Support Business Group ("CSBG") provides products and services to maximize installed equipment performance and operational efficiency. We offer a broad range of services to deliver value throughout the lifecycle of our equipment, including customer service, spares, upgrades, refurbishment of our etch, deposition, photoresist strip, and clean products. While most semiconductor device manufacturers have transitioned to 300 mm wafer technology, there are still many who utilize 200 mm technology, requiring prior-generation equipment. To address this market and to meet customers' needs for high-performance, low-risk equipment, our Reliant™ Systems Business offers a suite of new and refurbished Lam legacy equipment.

With the acquisition of Novellus, we entered into the business of developing, manufacturing, selling and supporting equipment used in grinding, lapping and polishing precision parts used in a broad spectrum of industrial applications. Our primary subsidiary in this area, Peter Wolters, is a leader in the design and manufacturing of high precision grinding, lapping, polishing, and deburring systems used to achieve a highly precise or smooth surface on a finished material. Peter Wolters' products are used in the semiconductor and LED manufacturing industries, as well as in the automotive, aerospace, medical, and green energy industries.

Lam's subsidiary, Silfex, is a leading provider of high purity custom silicon components and assemblies that serve high technology markets including the solar, optics, and semiconductor equipment markets. In addition to its silicon growing and fabrication services, Silfex also provides full vertical integration through the development of bonding, precision cleaning and clean room manufacturing necessary in the fabrication of critical components used by its customers.

## **Etch Process**

Etch processes, which are repeated numerous times during the wafer fabrication cycle, are required to manufacture every type of semiconductor device produced today. Our etch products selectively remove portions of various films from the wafer in the creation of semiconductor devices. These products use various plasma-based technologies to create the desired critical device features at current and future technology nodes. Plasma consists of charged and neutral particles that react with exposed portions of the wafer surface to remove dielectric or conductive materials and produce the finely defined features and patterns of an integrated circuit. Etch products are required to remove only the desired films and do so in a uniform fashion across the entire surface of the wafer. This process is becoming increasingly challenging as device feature sizes shrink, the complexity of the films being removed increases, and the tolerance for variability between devices and wafers becomes smaller.

### ***Dielectric Etch***

Dielectric etch often requires etching multi-layer film stacks. Smaller technology node sizes increase the complexity of the structures being etched, and repeatable on-wafer performance remains critical. In addition to the challenges introduced by new materials and scaling, device manufacturers' focus on reducing overall cost per wafer has placed an increased emphasis on the ability to etch multiple films in the same chamber (*in situ*).

Production-proven in high-volume manufacturing for the more than 15 years, our patented Dual Frequency Confined™ (“DFC”) technology has been extended to incorporate multi-frequency power with physically confined plasma. The application of power at different frequencies provides enhanced process flexibility and allows different materials to be etched in the same chamber. Physical confinement of the plasma to an area directly above the wafer minimizes chemical interaction with the chamber walls, eliminating potential polymer build-up that could lead to defects on the wafer. Confinement also enables our proprietary *in situ* Waferless Autoclean™ (“WAC”) technology to clean chamber components after each wafer has been etched. Used together, multi-frequency and WAC technologies provide a consistent process environment for every wafer, preventing process drift and ensuring repeatable process results wafer-to-wafer and chamber-to-chamber.

#### ***2300 Flex Product Family:***

*2300® Exelan® Flex™, 2300® Exelan® Flex45™, 2300® Flex™ D Series, 2300® Flex™ E Series*

Our 2300 Flex dielectric etch product family represents a continuous evolution of the productivity and performance benefits of DFC technology. The 2300 Flex family allows a single chamber design to meet the requirements of a wide range of applications at multiple nodes. Advances in system design, such as multiple frequencies, higher power capabilities and tunable wafer temperature, meet the more demanding uniformity and profile requirements for applications at advanced technology nodes.

### ***Conductor Etch***

As the semiconductor industry continues to shrink critical feature sizes and improve device performance, a variety of new etch challenges have emerged. For conductor etch, these challenges include processing smaller features, new materials, and 3-dimensional transistor structures on the wafer. Due to decreasing feature sizes, the etch process can now require atomic-level control across a 300 mm wafer. The incorporation of new metal gates and high-k dielectric materials in the device stack requires advanced multi-film etching capability. Furthermore, the adoption of double patterning techniques to address lithography challenges, which began at sub-40nm technology nodes, expands etch processing by defining the feature on the wafer and also transferring the pattern into the film. All of these challenges require today's conductor etch systems to provide advanced capabilities, while still providing high productivity.

Introduced in 1992, our Transformer Coupled Plasma™ (“TCP”) technology continues to provide leading-edge capability for advanced conductor etch applications at leading edge technology nodes. By efficiently

coupling radio frequency (“RF”) power into plasma at low pressures, the TCP technology provides capability to etch nanoscale features into silicon and metal films. The advanced TCP source design ensures a uniform, high-density plasma across the wafer, without requiring magnetic enhancements that could cause device damage. With a wide process window over a range of power, chemistry, and pressure combinations, TCP technology provides the flexibility required to perform multiple etch steps in the same chamber.

*2300 Kiyo Product Family:*

*2300<sup>®</sup> Versys<sup>®</sup> Kiyo<sup>®</sup>, 2300<sup>®</sup> Versys<sup>®</sup> Kiyo45<sup>™</sup>, 2300<sup>®</sup> Kiyo<sup>®</sup> C Series, 2300<sup>®</sup> Kiyo<sup>®</sup> E Series*

*2300 Versys Metal Product Family:*

*2300<sup>®</sup> Versys<sup>®</sup> Metal, 2300<sup>®</sup> Versys<sup>®</sup> Metal45<sup>™</sup>, 2300<sup>®</sup> Versys<sup>®</sup> Metal L, 2300<sup>®</sup> Versys<sup>®</sup> Metal M*

Now in its fourth generation, the 2300 Kiyo product family combines iterative advances in technology to provide critical dimension (“CD”) uniformity and productivity for a wide range of conductor etch applications. The 2300 Versys Metal product family leverages Lam’s proprietary TCP technology to provide a flexible platform for back-end-of-line metal etch processes. Our etch products perform production-proven *in situ* etches of complex features. In addition, proprietary pre-coat and post-etch chamber clean techniques provide the same environment for superior repeatability, as well as high uptime and yield wafer after wafer.

***Through-Silicon Via Etch***

The semiconductor industry is developing advanced, three-dimensional integrated circuits (“3D ICs”) using through-silicon vias (“TSVs”) to provide interconnect capability for die-to-die and wafer-to-wafer stacking. In addition to a reduced form factor, 3D ICs can enhance device performance through increased speed and decreased power consumption. Manufacturers are currently considering a wide variety of 3D integration schemes that present an equally broad range of TSV etch requirements. Plasma etch technology, which has been used extensively for deep silicon etching in memory devices and micro-electromechanical systems (“MEMS”) production, is well suited for TSV creation.

*2300 Syndion Product Family:*

*2300<sup>®</sup> Syndion<sup>®</sup>, 2300<sup>®</sup> Syndion<sup>®</sup> C*

The 2300 Syndion etch system is based on our patented TCP technology and the production-proven 2300 Versys Kiyo conductor etch system. The Syndion system can etch multiple film stacks in the same chamber; including silicon, dielectric, and conducting materials, thereby addressing multiple TSV etch requirements.

***MEMS and Deep Silicon Etch***

Deep silicon etch is an enabling process for several emerging technologies, including MEMS devices, CMOS image sensors, and power devices. Many of these technologies are increasingly being used in consumer applications, such as ink jet printer heads, accelerometers, and inertial sensors. This is driving a number of deep silicon etch applications to transition into high-volume manufacturing, which requires the high levels of cost-effective production typically seen in commodity semiconductor memory devices. To achieve high yield in mass production, the deep silicon etch process requires wafer-to-wafer repeatability.

*TCP 9400DSiE Product Family:*

*TCP<sup>®</sup> 9400DSiE<sup>™</sup>, TCP<sup>®</sup> 9400DSiE<sup>™</sup> II*

The TCP 9400DSiE system is based on our production-proven TCP 9400 silicon etch series. The system’s patented high-density TCP plasma source provides a configuration to meet the challenges of silicon deep reactive ion etch. This offers broad process capability and flexibility for a wide range of MEMS, advanced packaging, power semiconductor applications, and TSV applications on 150 mm and 200 mm wafers. In addition, incorporation of our proprietary *in situ* chamber cleaning technology provides etch rate stability.

## Deposition Process

Our advanced deposition systems use chemical vapor deposition (“CVD”), physical vapor deposition (“PVD”), and electrochemical deposition (“ECD”) processes to form transistor, capacitor, and interconnect layers in an integrated circuit. Our high-density plasma CVD (“HDP-CVD”) and plasma-enhanced CVD (“PECVD”) systems employ a chemical plasma to deposit dielectric material within the gaps formed by the etching of aluminum or in a copper chip as a blanket film which can be etched with patterns for depositing conductive materials into the etched dielectric. Our CVD tungsten systems are used to deposit conductive contacts between transistors and interconnects or between layers of metal interconnect wiring. Our PVD systems deposit conductive aluminum and copper metal layers by sputtering metal atoms from the surface of a target source. Our ECD systems deposit copper to form the conductive wiring on integrated circuits using copper interconnects.

## CVD Technologies

In the CVD process, manufacturers place wafers in a reaction chamber, introduce a variety of pure and precisely metered gases into the chamber, and then add a form of energy to activate a chemical reaction that deposits a film on the wafers. The CVD process is the traditional method used to deposit dielectric films on wafers. Manufacturers also use CVD to deposit conductive metal layers, particularly tungsten, as it is difficult to deposit such layers on devices with very small features when using conventional PVD or other deposition technologies.

### *ALTUS Product Family:*

*ALTUS®*, *ALTUS® Max*, *ALTUS® Max ExtremeFill™*, *ALTUS® DirectFill™*

The ALTUS tungsten CVD deposition systems deliver leading productivity and technology for contact and local interconnect applications. The system delivers advanced contact and via fill technology using a Pulsed Nucleation Layer (PNL™) Lam’s advanced Atomic Layer Deposition (ALD) nucleation technology with chemical vapor deposition processes, and the ALTUS multi-station sequential deposition (“MSSD”) architecture allows the nucleation layer and CVD fill to be performed within the same ALTUS Max chamber. The latest advancement of the product, ALTUS Max ExtremeFill, has recently been introduced for challenging conventional applications and 3D fill applications requiring greater than 100% step coverage, and can be upgraded onto existing ALTUS or ALTUS Max systems. The ALTUS DirectFill barrier deposition system delivers a highly conformal tungsten nitride barrier film using PNL™ technology. The system is adapted from the ALTUS Max platform with the sequential deposition architecture providing maximum productivity and high reliability, resulting in low cost of ownership. ALTUS DirectFill technology extends contact metallization to future technology nodes, enabling superior electrical performance and low power consumption.

### *SPEED Product Family:*

*SPEED®*, *SPEED® NExT*, *SPEED® Max*

For gapfill HDP-CVD applications, the SPEED Max 300 mm system offers significant flexibility and productivity benefits while extending HDP- CVD into leading edge technology nodes and beyond. SPEED Max’s ability to run multiple processes for various devices in one platform, without any hardware changes, improves customer development times and tool utilizations across product lines. The SPEED Max isothermal chamber design, combined with an enlarged remote plasma source, allows more wafers to be processed between plasma cleans and delivers superior throughput per system. In addition, the multi-port injection, together with isolated source technology, customizes the deposition and *in situ* etching profile for optimal thickness and gap fill uniformity across the wafer.

*VECTOR Product Family:*

*VECTOR®*, *VECTOR® Express*, *VECTOR® Express AHM*, *VECTOR® Extreme*, *VECTOR® Extreme AHM*,  
*VECTOR® Extreme TEOS xT*, *VECTOR® Excel*

The VECTOR PECVD products are used for depositing dielectric films on 300 mm wafers. With over 1,000 systems installed in logic fabs, memory fabs, and foundries around the world, VECTOR has the highest installed base of 300mm PECVD systems in the industry. The VECTOR multi-station sequential deposition architecture not only provides excellent wafer-to-wafer repeatability, but also allows independent temperature and RF control of each processing station, critical in meeting the integration needs for advanced technology nodes. VECTOR is available in a number of different models for different end applications. The VECTOR Express delivers capital productivity with high reliability. VECTOR Extreme is designed for memory megafabs, and the VECTOR Extreme TEOS xT version runs at industry leading throughputs. Both VECTOR Express and VECTOR Extreme can also be configured to deposit ashable hard mask (“AHM”) films. Finally, the VECTOR Excel is a modular system designed to address the needs of advanced technology nodes that require pre- or post-deposition treatment of the dielectric film.

*SOLA Product Family:*

*SOLA®*, *SOLA® xT*

SOLA is an innovative ultraviolet thermal processing (“UVTP”) system used for the post-deposition treatment of dielectric films. SOLA is based on multi-station sequential treatment architecture to improve film properties and resulting device yields. The SOLA architecture is both highly productive and flexible and allows the use of different lamps, light intensities, and temperatures at each processing station, resulting in superior post-treatment film performance and improved wafer to wafer uniformity. A variety of applications benefit from SOLA technology, including high-stress silicon nitrides and ultra-low-k dielectrics used to deliver increased device speeds and lower power consumption for advanced technology nodes.

***PVD Technologies***

PVD, also known as “sputtering,” is a process in which ions of an inert gas, such as argon, are electrically accelerated in a high vacuum toward a target of pure metal, such as tantalum or copper. Upon impact, the argon ions sputter off the target material, which is then deposited as a thin film on a silicon wafer. PVD processes are used to create the barrier and seed layers in copper damascene interconnect applications, as well as in front-end-of-line applications such as high-k/metal gate schemes for logic devices.

*INOVA Product Family:*

*INOVA®*, *INOVA® xT*, *INOVA® NExT*

The latest generation INOVA NExT is a 300 mm PVD system designed for both copper damascene and subtractive aluminum manufacturing processes. For copper applications, the INOVA NExT features the patented Hollow Cathode Magnetron (HCM™) source technology to provide ion-induced copper seed flow (IonFlow™) enabling the sidewall coverage, film quality, and scalable seed layers required for advanced technology nodes. Coupled with the HCM IONX™ tantalum or titanium barrier technology, the INOVA NExT system enables PVD copper barrier seed ensures extendibility. For aluminum applications, the INOVA NExT production-proven Q300 Planar Magnetron Source provides industry-leading system productivity with lowest cost of consumables and defects, our highest manufacturing throughput, and excellent process control for robust integration.

***ECD Technologies***

Lam’s Electrofill® products are used to build the copper primary conductive wires in advanced integrated circuits. Electrofill uses a copper electrolytic solution to create lines and vias in a dielectric layer which has been etched with the pattern of the circuitry, in a process called copper damascene.

*SABRE Product Family:*

*SABRE<sup>®</sup>, SABRE<sup>®</sup> xT, SABRE<sup>®</sup> NExT, SABRE<sup>®</sup> Extreme, SABRE<sup>®</sup> Excel*

The latest-generation SABRE Excel system features a deposition module that incorporates our patented IRISCell™ technology that enables the deposition of very thin seeds for advanced technology nodes. SABRE Excel's Multiwave entry and low-corrosion electrolyte also dramatically improve on-wafer performance, reduce cost of consumables, and significantly reduce production halting defects.

**Surface Preparation Process**

Chip manufacturers use surface preparation products to remove photoresist from a wafer's surface after the photolithographic circuitry patterning process to remove any film residues and particles before proceeding with the next deposition step in the manufacturing process. Both wet chemistry and dry chemistry strip processes may be used in semiconductor manufacturing. In dry strip, a combination of plasma energy and gaseous chemistries are combined to achieve the desired result.

*Standalone Photoresist Strip Products:*

*GxT<sup>®</sup>, G400<sup>®</sup>*

Our family of photoresist strip products are tailored to the specific needs of memory and logic customers. The GxT photoresist strip system is intended for critical logic device cleaning steps that demand low material loss, full temperature and chemistry flexibility, and ultra-low defect rates. The GxT's MSSP architecture facilitates complex, multi-step ashing processes, while the ultra-low silicon loss ("ULSi") H<sub>2</sub>-based process provides non-oxidizing chemistries for near-zero material loss. Our G400 system, the industry's most productive photoresist system, is targeted for memory manufacturers and provides bulk strip and high-dose implant strip capabilities. Enhanced source technology combined with faster wafer heating provides the G400 with industry leading throughputs for bulk strip applications and implant strip.

**Clean Process**

The manufacture of semiconductor devices involves a series of processes such as etch, deposition, and implantation, which leave particles and residues on the surface of the wafer. The wafer must generally be cleaned after these steps to remove particles and residues that could adversely impact the processes that immediately follow them and degrade device performance. Common wafer cleaning steps include post-etch and post-strip cleans and pre-diffusion and pre-deposition cleans, among others.

As customers transition to smaller geometries, it becomes increasingly more challenging to efficiently remove particles and residues while at the same time minimizing substrate material loss, protecting structures with fragile new materials and smaller feature sizes, and efficient drying. Similarly, as manufacturers transition to smaller technology nodes, managing particle build-up on the back-side of the wafer surface is becoming more critical. Single-wafer wet processing provides an advantage over batch cleaning by preventing particles from migrating from the back-side of a wafer to the front-side during the cleaning steps. In addition, management of potential defect sources at the wafer edge becomes increasingly challenging as new materials are introduced in the process flow.

**Single-Wafer Wet Clean**

As device geometries shrink and new materials are introduced, device flows become more complex, and the number of wafer cleaning steps increases. The need to have better control of the cleaning process, to increase overall clean efficiency, and to clean fragile structures without causing damage are reasons why chipmakers are turning to single-wafer wet clean processing technology for next-generation devices.

Single-wafer wet processing is particularly advantageous for those applications where improved defect performance (removing particles without damaging the wafer pattern) or enhanced selectivity and CD control can

improve yield. Over the past decade, the transition from batch to single-wafer processing has occurred for back-end-of-line wet clean applications. More recently device manufacturers have transitioned to single-wafer processing for front-end-of-line wet clean applications as the need for higher particle removal efficiency without device structure damage has increased.

*Spin Wet Clean Products:*

*SP Series, Da Vinci<sup>®</sup>, DV-Prime<sup>®</sup>*

Introduced over 20 years ago, our spin technology for cleaning and removing films has assisted the industry transition from batch to single-wafer wet processing. This proven technology provides the productivity and flexibility needed for both high-volume manufacturing and leading-edge development across multiple technology nodes and for all device types. By offering advanced dilute chemistry and solvent solutions in our systems, our spin wet clean systems address certain defectivity and material integrity requirements. In addition, our unique wafer chuck design provides the ability to effectively clean the back-side of the wafer without damaging the devices on the front-side of the wafer surface.

***Plasma-Based Bevel Clean***

Semiconductor manufacturers clean the wafer edge or bevel to properly remove yield limiting defects. New materials like porous low-k and organic films often do not adhere as well as traditional silicon or polymer-based films and have the potential to be significant defect sources. By including cleaning steps that target the bevel region, the number of good die at the wafer's edge can be increased to maximize yield.

*2300<sup>®</sup> Coronus<sup>®</sup> Plasma Bevel Clean System*

The 2300 Coronus plasma bevel clean system incorporates plasma technology to remove yield limiting defect sources. The system combines the ability of plasma to selectively remove a wide variety of materials with a proprietary confinement technology that protects the die area. Incorporating our Dynamic Alignment technology on the production-proven 2300 platform, the Coronus system provides highly accurate wafer placement for repeatable process results and superior encroachment control and is designed to remove a wide range of material types, in multiple applications, throughout the manufacturing process flow.

**Advanced Wafer-Level Packaging or “Back End” Systems**

3D wafer level packaging (“WLP”) is emerging as an alternative to traditional two dimensional packaging as the 3D approach offers a smaller form factor in the final chip package, increased interconnect speed and bandwidth, and lower power consumption, among other benefits. To address this emerging trend, we currently offer WLP versions of our ECD, PVD, PECVD and photoresist strip systems.

*ECD: SABRE<sup>®</sup> 3D* — Designed for advanced wafer-level packaging applications including through-silicon vias, redistribution layers, pillars, under-bump metallization, and bumping. The system's innovative modular design maximizes footprint density, enables integrated multi-layer processing, and supports field extendibility, making capacity additions easy and cost effective. The SABRE 3D incorporates many of the same technologies found on the standard SABRE platform, including sealed dry contacts, innovative clamshell and cell design, and SmartDose<sup>™</sup> plating bath control.

*PVD: INOVA<sup>®</sup> 3D* — Designed for depositing copper barrier/seed films for TSVs, the INOVA 3D uses our next-generation patented HCM sputtering source coupled with our IonFlow technology to provide superior copper sidewall coverage and ultra-low defects in high aspect ratio TSVs. The ion-induced copper flow process enables void-free fill to be achieved while using a much thinner seed layer compared to competitive PVD approaches, reducing the manufacturing cost of consumables for the TSV PVD process step by greater than 50%.



*PECVD: VECTOR® 3D* — Used to deposit high quality dielectric liners for TSV structures, as well as other low temperature films such as silicon nitride and silicon oxide that are compatible with bonded substrates. The system incorporates technology to tune the hermiticity and electrical performance of these low temperature films to match the film quality typically obtained with a higher temperature dielectric deposition. VECTOR 3D also uses the same patented MSSD technology that is incorporated into the more than 1,000 VECTOR PECVD systems that have been shipped worldwide.

*Photoresist Strip: G3D™* — Introduced in 2010, the G3D is a version of the GxT platform designed for advanced WLP applications, including contact clean and TSV photoresist strip. The G3D photoresist strip system has been designed to quickly remove thick (20-100 micron) photoresists used in the manufacture of redistribution layers and pillars and to achieve residue-free strip and clean of high aspect ratio TSVs. G3D's competitive edge comes from a unique combination of high productivity, low temperature processing, and a deep cleaning capability that is enabled by the system's high ash rate inductively-coupled plasma source. With flexible RF power and gas distribution controls, and a low-temperature processing capability, the G3D affords a wide process window for residue-free removal at industry leading throughputs.

## **LED Manufacturing Systems**

For the LED sub-segment of the general lighting marketplace, we offer a suite of highly productive deposition, strip, and polishing/grinding process equipment solutions for LED manufacturing. Our products for LED manufacturing include the L3510® line of photoresist strip systems for de-scum and dry strip cleaning processes, the INOVA and SABRE systems for LED metallization steps, the SEQUEL® and VECTOR systems for PECVD deposition, and the AC-1500-P3 double-side polishing system from Peter Wolters for polishing and backside grinding. Our LED manufacturing products are designed for substrates of sapphire, silicon carbide, silicon, gallium arsenide and gallium nitride, and can be used with wafers ranging from 2 inches (50 mm) to 12 inches (300 mm) in diameter. All systems are supported by our worldwide field service organization.

## **Fiscal Periods Presented**

All references to fiscal years apply to our fiscal years, which ended June 24, 2012, June 26, 2011, and June 27, 2010. In all sections of this document, the fiscal 2012 information presented reflects 20 days of Novellus related activity.

## **Research and Development**

The market for semiconductor capital equipment is characterized by rapid technological change and product innovation. Our ability to achieve and maintain our 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 years 2012, 2011, and 2010 were \$444.6 million, \$373.3 million, and \$320.9 million, respectively. The majority of R&D spending over the past three years has been targeted at etch and other plasma-based technologies, single-wafer clean, and other semiconductor manufacturing products. We believe current challenges for customers at various points in the semiconductor manufacturing process present opportunities for us.

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

## Marketing, Sales, and Service

Our marketing, sales, and service efforts are focused on building long-term relationships with our customers and targeting product and service solutions designed to meet their needs. These efforts are supported by a team of product marketing and sales professionals as well as equipment and process engineers who work closely with individual customers to develop solutions for their wafer processing needs. We maintain ongoing service relationships with our customers and have an extensive network of service engineers in place throughout the United States, Europe, Taiwan, Korea, 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 provide standard warranties for our systems. The warranty provides that systems shall be free from defects in material and workmanship and conform to agreed-upon 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 offer extended warranty packages to our customers to purchase as desired.

### *International Sales*

A significant portion of our sales and operations occur outside the United States and, therefore, may be subject to certain risks, including but not limited to tariffs and other barriers, difficulties in staffing and managing non-U.S. operations, adverse tax consequences, foreign currency exchange rate fluctuations, changes in currency controls, compliance with U.S. and international laws and regulations, including U.S. export restrictions, and economic and political conditions. Any of these factors may have a material adverse effect on our business, financial position, and results of operations and cash flows. Revenue by region was as follows:

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
Revenue:			
Korea .....	\$ 893,549	\$ 756,660	\$ 539,312
Taiwan .....	467,922	766,910	703,854
North America .....	458,531	393,004	186,036
Japan .....	308,189	405,371	318,641
Asia Pacific .....	292,963	492,600	252,248
Europe .....	244,038	423,148	133,685
Total revenue .....	<u>\$2,665,192</u>	<u>\$3,237,693</u>	<u>\$2,133,776</u>

## Customers

Our customers include many of the world's leading semiconductor manufacturers. Customers continue to establish joint ventures, alliances and licensing arrangements which have the potential to positively or negatively impact our competitive position and market opportunities. In fiscal year 2012, three customers, Samsung Electronics Company, Ltd., SK Hynix Inc., and Taiwan Semiconductor Manufacturing Company, Ltd., combined represented approximately 50% of total revenues and each customer individually represented greater than 10% of total revenues. In fiscal year 2011, Samsung Electronics Company, Ltd. represented approximately 24% of total revenues. In fiscal year 2010, three customers, Samsung Electronics Company, Ltd., Taiwan Semiconductor Manufacturing Company, Ltd., and Toshiba Corporation, combined represented approximately 50% of total revenues and each customer individually represented greater than 10% of total revenues.

A material reduction in orders from our customers could adversely affect our results of operations and projected financial condition. Our business depends upon the expenditures of semiconductor manufacturers.

Semiconductor manufacturers' businesses, in turn, depend on many factors, including their economic capability, the current and anticipated market demand for integrated circuits and the availability of equipment capacity to support that demand.

### **Backlog**

In general, we schedule production of our systems based upon our customers' delivery requirements. In order for a system to be included in our backlog, the following conditions must be met: 1) we have received a written customer request that has been accepted, 2) we have an agreement on prices and product specifications, and 3) there is a scheduled shipment within the next 12 months. In order for spares and services to be included in our backlog, the following conditions must be met: 1) we have received a written customer request that has been accepted and (2) delivery of products or provision of services is anticipated within the next 12 months. 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 to exceed 12 months, in calculating backlog amounts. Our policy is to revise our backlog for order cancellations and to make adjustments to reflect, among other things, changes in spares volume estimates and customer delivery date changes. At June 24, 2012 and June 26, 2011, our backlog was approximately \$870 million and \$641 million, respectively. Generally, orders for our products and services are subject to cancellation by our customers with limited penalties. Because some orders are received and shipped in the same quarter and because customers may change delivery dates and cancel 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 or at the location of our customers. Most of the assembly and testing of our products is conducted in cleanroom environments.

We have agreements with third parties to outsource certain aspects of our manufacturing, production warehousing, and logistics functions. We believe that these outsourcing contracts provide us more flexibility to scale our operations up or down in a 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 have secured 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 and have a negative effect on our operating results and financial condition. Overall, we believe we have effective mechanisms to manage risks associated with our outsourcing relationships. Refer to Note 14 of our Consolidated Financial Statements, included in Item 15 of this report, for further information concerning our outsourcing commitments.

Certain components and sub-assemblies that we include in our products may only be obtained from a single supplier. We believe that, in many cases, we could obtain and qualify alternative sources to supply these products. Nevertheless, any prolonged inability to obtain these components could have an adverse 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 that we use in our business operations. We are currently not aware of any pending notices of violation, fines, lawsuits, or investigations arising from environmental matters that would have a material effect on our business. We believe that we are generally in 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, require us to suspend production or cease operations or cause our customers to not accept our products. These regulations

could require us to alter our current operations, to acquire significant additional 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 14, 2012, we had approximately 6,600 regular employees. Although we have employment-related agreements with a number of key employees, these agreements do not guarantee continued service. Each of our employees is required to comply with our policies relating to maintaining the confidentiality of our non-public information.

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.

## **Competition**

The semiconductor capital equipment industry is characterized by rapid change and is highly competitive throughout the world. To compete effectively, we 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 advancements, and similar factors. Our ability to succeed in the marketplace depends upon our ability to maintain existing products and introduce product enhancements and new products that meet customer requirements on a timely basis. In addition, semiconductor manufacturers must make a substantial investment to qualify and integrate new capital equipment into semiconductor production lines. 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 and technology node as long as the supplier's products demonstrate performance to specification in the installed base. Accordingly, we may experience difficulty in selling to a given customer if that customer has qualified a competitor's equipment. We must also continue to meet the expectations of our installed base of customers through the delivery of high-quality and cost-efficient spare parts in the presence of third-party spare parts provider competition.

We face significant competition with all of our products and services. Our primary competitors in the etch market are Tokyo Electron, Ltd. and Applied Materials, Inc. Our primary competitors in the single-wafer wet clean market are Dainippon Screen Manufacturing Co. Ltd. and Tokyo Electron, Ltd. In the tungsten CVD, PECVD, HDP-CVD, ECD and PVD markets, our primary competitor is Applied Materials, Inc. In the PECVD market, we also compete against ASM International. Our primary competitors in the surface preparation product arena are Mattson Technologies, Inc. and PSK, Inc.

Certain of our existing and potential competitors have substantially greater financial resources and larger engineering, manufacturing, marketing, and customer service and support organizations than we do. In addition, we face competition from a number of emerging companies in the industry. 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, or other entities, covering 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.

## 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 in them. Our patents, which cover material aspects of our past and present core products, have current durations ranging from approximately one to twenty years. We believe that, although the patents we own and may obtain in the future will be of value, they alone will not determine our success. Our success 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 terms acceptable to us, or at all. For further discussion of legal matters, see Item 3, “Legal Proceedings,” of this report.

## EXECUTIVE OFFICERS OF THE COMPANY

As of August 22, 2012, the executive officers of Lam Research were as follows:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Martin B. Anstice . . . . .	45	President and Chief Executive Officer
Timothy M. Archer . . . . .	45	Chief Operating Officer
Ernest E. Maddock . . . . .	54	Senior Vice President, Chief Financial Officer and Chief Accounting Officer
Richard A. Gottscho . . . . .	60	Senior Vice President, Global Products
Sarah A. O’Dowd . . . . .	62	Group Vice President, Chief Legal Officer

Martin B. Anstice is President and Chief Executive Officer of Lam Research. He joined Lam Research in April 2001 as Senior Director, Operations Controller, was promoted to the position of Managing Director and Corporate Controller in May 2002, was promoted to Group Vice President, Chief Financial Officer and Chief Accounting Officer in June 2004, was named Senior Vice President, Chief Financial Officer and Chief Accounting Officer in March 2007, was promoted to Executive Vice President, Chief Operating Officer, in September 2008, and promoted to President, Chief Operating Officer, in December 2010. In January 2012, Mr. Anstice was appointed President, Chief Executive Officer, and in February 2012, was appointed to the Lam Research Corporation Board of Directors. 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.

Timothy M. Archer joined Lam Research in June 2012 as the Company’s Chief Operating Officer. Prior to Lam Research, Mr. Archer spent 18 years at Novellus Systems in various technology development and business leadership roles, including most recently as Chief Operating Officer from January 2011 to June 2012, Executive Vice President Worldwide Sales, Marketing, and Customer Satisfaction from September 2009 to January 2011, and Executive Vice President of the PECVD and Electrofill Business Units from November 2008 to September 2009. Mr. Archer’s tenure at Novellus Systems also included assignments as Senior Director of Technology for Novellus Systems Japan from 1999 to 2001 and Senior Director of Technology for the Electrofill Business Unit from April 2001 to April 2002. Mr. Archer started his career in 1989 at Tektronix where he was responsible for process development for high-speed bipolar integrated circuits. Mr. Archer completed the Program for Management Development at Harvard Graduate School of Business and holds a Bachelor of Science degree in Applied Physics from the California Institute of Technology.

Ernest E. Maddock was appointed Senior Vice President and Chief Financial Officer of Lam Research in September 2008. Additionally, Mr. Maddock oversees Information Technology and heads Silfex Incorporated (formerly Bullen Semiconductor Corporation), a division of Lam Research. From October 2003 through September 2008, Mr. Maddock held the position of Senior Vice President of Global Operations at Lam Research, overseeing Information Technology, Global Supply Chain, Production Operations, Corporate Quality, Global Security, and Global Real Estate & Facilities. Mr. Maddock also held the position of Vice President of the Customer Support Business Group (CSBG) with the Company. Mr. Maddock joined the Company in November 1997. Prior to his employment with Lam Research, Mr. Maddock 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.

Richard A. Gottscho is the Company's Senior Vice President, Global Products Group, a position he has held since August 2010. Prior to that time, he had been Group Vice President and General Manager, Etch Businesses since March 2007. Dr. Gottscho joined the Company in January 1996 and has served at various Director and Vice President levels in support of etch products, CVD products, and corporate research. Prior to joining Lam Research, Dr. Gottscho was a member of Bell Laboratories for 15 years where he started his career working in plasma processing. During his tenure at Bell, he headed research departments in electronics materials, electronics packaging, and flat panel displays. Dr. Gottscho is the author of numerous papers, patents, and lectures in plasma processing and process control. He is a recipient of the American Vacuum Society's Peter Mark Memorial Award and Plasma Science and Technology Division Prize, the Gaseous Electronics Conference Foundation Lecturer, the Dry Process Symposium Nishizawa Award, and the Tegal Thinker Award. He is a fellow of the American Physical and American Vacuum Societies and has served on numerous editorial boards of refereed technical publications, program committees for major conferences in plasma science and engineering, and was vice-chair of a National Research Council study on plasma science in the 1980s. Dr. Gottscho earned Ph.D. and B.S. degrees in physical chemistry from the Massachusetts Institute of Technology and the Pennsylvania State University, respectively.

Sarah A. O'Dowd joined Lam Research in September 2008 as Group Vice President and Chief Legal Officer, responsible for general legal matters, intellectual property and ethics & compliance. In addition to her Legal function, in April 2009 she was appointed Vice President of Human Resources and served in this dual capacity from April 2009 through May 2012. Prior to joining Lam Research, Ms. O'Dowd was Vice President and General Counsel for FibroGen, Inc. from February 2007 until September 2008. Until February 2007, Ms. O'Dowd was a shareholder in the law firm of Heller Ehrman LLP for more than twenty years, practicing in the areas of corporate securities, governance and mergers and acquisitions for a variety of clients, principally publicly traded high technology companies. She served in a variety of leadership and management roles at Heller Ehrman, including Managing Partner of the Silicon Valley and San Diego offices, member of the firm's Policy Committee and, as head of the firm's business practice groups, a member of the firm's Executive Committee.

#### **Item 1A. Risk Factors**

In addition to the other information in this 2012 Form 10-K, the following risk factors should be carefully considered in evaluating the Company and its business because such factors may significantly impact our business, operating results, and financial condition. As a result of these risk factors, as well as other risks discussed in our other SEC filings, our actual results could differ materially from those projected in any forward-looking statements. No priority or significance is intended, nor should be attached, to the order in which the risk factors appear.

***The Semiconductor Equipment Industry is Subject to Major Fluctuations and, as a Result, We Face Risks Related to Our Strategic Resource Allocation Decisions***

The business cycle in the semiconductor equipment industry has historically been characterized by frequent periods of rapid change in demand that challenge our management to adjust spending and other resources allocated to operating activities. During periods of rapid growth or decline in demand for our products and services, we face significant challenges in maintaining adequate financial and business controls, management processes, information systems, procedures for training and managing our work force, and in appropriately sizing our supply chain infrastructure, work force, and other components of our business on a timely basis. If we do not adequately meet these challenges during periods of demand decline, our gross margins and earnings may be negatively impacted.

We continuously reassess our strategic resource allocation choices in response to the changing business environment. If we do not adequately adapt to the changing business environment, we may lack the infrastructure and resources to scale up our business to meet customer expectations and compete successfully during a period of growth, or we may expand our capacity too rapidly and/or beyond what is appropriate for the actual demand environment.

Especially during transitional periods, resource allocation decisions can have a significant impact on our future performance, particularly if we have not accurately anticipated industry changes. 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.

***Future Declines in the Semiconductor Industry, and the Overall World Economic Conditions on Which it is Significantly Dependent, Could Have a Material Adverse Impact on Our Results of Operations and Financial Condition***

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. The semiconductor industry is cyclical in nature and experiences periodic downturns. Global economic and business conditions, which are often unpredictable, have historically impacted customer demand for our products and normal commercial relationships with our customers, suppliers, and creditors. Additionally, in times of economic uncertainty our customers' budgets for our products, or their ability to access credit to purchase them, could be adversely affected. This would limit their ability to purchase our products and services. As a result, economic downturns can cause material adverse changes to our results of operations and financial condition including, but not limited to:

- a decline in demand for our products;
- an increase in reserves on accounts receivable due to our customers' inability to pay us;
- an increase in reserves on inventory balances due to excess or obsolete inventory as a result of our inability to sell such inventory;
- valuation allowances on deferred tax assets;
- restructuring charges;
- asset impairments including the potential impairment of goodwill and other intangible assets;
- a decline in the value of our investments;
- exposure to claims from our suppliers for payment on inventory that is ordered in anticipation of customer purchases that do not come to fruition;
- a decline in the value of certain facilities we lease to less than our residual value guarantee with the lessor; and
- challenges maintaining reliable and uninterrupted sources of supply.

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

***Our Long-term Success, Results of Operations and the Value of Our Common Stock Depend on Our Ability to Successfully Combine the Novellus Business With Our Pre-existing Business, Which May Be More Difficult, Costly or Time-consuming Than Expected***

On June 4, 2012, we acquired Novellus, and we are currently combining Novellus’ business with our pre-existing business. Our future success, results of operations and the value of our common stock depend, in part, on our ability to realize the anticipated benefits of the acquisition. To realize these anticipated benefits, we must successfully combine our businesses in an efficient and effective manner and communicate the impact that a business combination will have on our financial statements. If we are not able to achieve and clearly communicate these objectives within the anticipated time frame, or at all, the anticipated benefits and cost savings of the acquisition may not be realized fully, or at all, or may take longer than expected to realize, and our results of operations and the value of our common stock may be adversely affected.

Specific issues that must be addressed in integrating the operations of Novellus into our pre-existing operations in order to realize the anticipated benefits of the acquisition include, among other things:

- integrating and optimizing the utilization of the properties, equipment, suppliers, distribution channels, manufacturing, service, marketing, promotion and sales activities and information technologies of the combined company;
- consolidating corporate and administrative infrastructures of the combined company;
- coordinating geographically dispersed organizations of the combined company;
- retaining and growing business at existing customers and attracting new customers to the combined company;
- managing our contractual and business relationships with common suppliers and customers to reduce inconsistent or inefficient effects;
- retaining key employees and utilizing their technical knowledge and business expertise;
- communicating the inherently complex factors that a business combination will have on our financial position and results of operations; and
- conforming standards, controls, procedures, policies, business cultures and compensation structures throughout the combined company.

In addition, integration efforts will also divert management attention and resources, the actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. Actual synergies, if achieved at all, may be lower than what we expect and may take longer to achieve than anticipated. If we are not able to adequately address these challenges, we may be unable to successfully integrate the combined company’s operations or to realize the anticipated benefits of the acquisition.

***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. 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 small number of transactions 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 industries in general and specifically the semiconductor equipment industry;
- the size and timing of orders from customers;
- procurement shortages;
- the failure of our suppliers or outsource providers to perform their obligations in a manner consistent with our expectations;
- manufacturing difficulties;
- customer cancellations or delays in shipments, installations, and/or customer acceptances;
- the extent that customers continue to purchase and use our products and services in their business;
- changes in average selling prices, customer mix, 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;
- transportation, communication, demand, information technology or supply disruptions based on factors outside our control such as strikes, acts of God, wars, terrorist activities, and natural disasters;
- legal, tax, accounting, or regulatory changes (including but not limited to change in import/export regulations) or changes in the interpretation or enforcement of existing requirements;
- changes in our estimated effective tax rate;
- foreign currency exchange rate fluctuations; and
- the dilutive impact of our convertible notes and related warrants on our earnings per share.

***Our Leverage and Debt Service Obligations and Potential Note Conversion or Related Hedging Activities May Adversely Affect Our Financial Condition, Results of Operations and Earnings Per Share***

As a result of the sale of our 2016 and 2018 convertible notes and the assumption of the 2041 convertible notes in connection with the Novellus acquisition (collectively the "Notes"), we have a greater amount of debt than we have maintained in the past. Our maintenance of higher levels of indebtedness could have adverse consequences including:

- impacting our ability to satisfy our obligations;
- increasing the portion of our cash flows that may have to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes; and
- impairing our ability to obtain additional financing in the future.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. Furthermore, our operations may not generate sufficient cash flows to enable us to meet our expenses and service our debt. As a result, we may need to enter into new financing arrangements to obtain the necessary funds. If we determine it is necessary to seek additional funding for any reason, we may not be able to obtain such funding or, if funding is available, obtain it

on acceptable terms. If we fail to make a payment on our debt, we could be in default on such debt, and this default could cause us to be in default on our other outstanding indebtedness.

Conversion of our Notes may cause dilution to our shareholders and to our earnings per share. Upon conversion of any Notes, we will deliver cash in the amount of the principal amount of the Notes and, with respect to any excess conversion value greater than the principal amount of the Notes, shares of our common stock, which would result in dilution to our shareholders. This dilution may be mitigated to some extent by the hedging transactions we entered into in connection with the sale of the 2016 and 2018 Notes. Prior to the maturity of the Notes, if the price of our common stock exceeds the conversion price, U.S. GAAP requires that we report an increase in diluted share count, which would result in lower reported earnings per share. The price of our common stock could also be affected by sales of our common stock by investors who view the Notes as a more attractive means of equity participation in our company and by hedging activity that may develop involving our common stock by holders of the Notes.

***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 are priced up to approximately \$6 million per unit, and our revenues in any given quarter are dependent upon the acceptance of a limited number of systems. As a result, the inability to recognize revenue on even a few systems can cause a significantly adverse impact on our revenues for a given quarter.

***We Have a Limited Number of Key Customers***

Sales to a limited number of large customers constitute a significant portion of our overall revenue, shipments and profitability. As a result, the actions of even one customer may subject us to variability in those areas that are difficult to predict. In addition, large customers may be able to negotiate requirements that result in increased costs and/or lower margins for us. 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. As of June 24, 2012, three customers accounted for approximately 24%, 17%, and 11 % of accounts receivable. As of June 26, 2011, three customers accounted for approximately 17%, 14%, and 10% of accounts receivable.

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

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

***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 that enable those 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, quality, or design 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. The expected industry transition to a 450mm platform represents an emerging challenge for our business. Our failure to commercialize new products in a timely manner could result in loss of market share, 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 the 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. Moreover, customers may adopt new technologies or processes to address the complex challenges associated with next generation devices. This shift may result in a reduction in the size of Lam's addressable markets. For example, the adoption of extreme ultraviolet lithography may adversely impact Lam's served available market.

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

- a decline in demand for even a limited number of our products;
- a failure to achieve continued market acceptance of our key products;
- export restrictions or other regulatory or legislative actions that could limit our ability to sell those products to key customer or market segments;
- an improved version of products being offered by a competitor in the market in which we participate;
- increased pressure from competitors that offer broader product lines;
- technological changes that we are unable to address with our products; or
- a failure to release new or enhanced versions of our products on a timely basis.

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

***Strategic Alliances and Potential Customer Consolidation May Have Negative Effects on Our Business***

Increasingly, semiconductor manufacturing companies are entering into strategic alliances or consolidating with one another to expedite the development of processes and other manufacturing technologies and/or achieve economies of scale. The outcomes of such an alliance can be the definition of a particular tool set for a certain function and/or the standardization of a series of process steps that use a specific set of manufacturing equipment; while the outcomes of consolidation can lead to an overall reduction in the market for semiconductor manufacturing equipment as customers' operations achieve economies of scale and/or increased purchasing power based on their higher volumes. While in certain instances this could work to our advantage, if our equipment becomes the basis for the function or process as the tool of choice for the larger consolidated customer or alliance, it could also work to our disadvantage if a competitor's tools or equipment become the standard equipment for such functions or processes.

Similarly, our customers may team with, or follow the lead of, educational or research institutions that establish processes for accomplishing various tasks or manufacturing steps. If those institutions utilize a

competitor's equipment when they establish those processes, it is likely that customers will tend to use the same equipment in setting up their own manufacturing lines. These actions could adversely impact our market share and financial results.

#### ***We Depend On 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 have sold us products for a substantial period of time, and we expect that we and they will continue to renew these contracts in the future or that we will otherwise replace them with competent alternative suppliers. However, certain of our suppliers are relatively new providers to us so that our experience with them and their performance is limited. Where practical, we intend 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 and generate revenues, which could adversely affect our operating results and damage our customer relationships.

#### ***Our Outsource Providers May Fail to Perform as We Expect***

Outsource providers have played and will continue to play a key role in our manufacturing operations and in many of our transactional and administrative functions, such as information technology, facilities management, and certain elements of our finance organization. Although we attempt to select 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 our outsource providers has required and may 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 and/or employee relationships, which could 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 for an extended period of time. Accordingly, we expect it to be more difficult to sell our products to a given customer if that customer initially selects a competitor's equipment for the same product line application.

#### ***We Face a Challenging and Complex Competitive Environment***

We face significant competition from multiple competitors. Other companies continue to develop systems and products that are competitive to ours and may 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 must devote 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, especially those that are created and financially backed by foreign governments, 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. We also face competition from our own customers, who in some instances have established affiliated entities that manufacture equipment similar to ours. For these reasons, we may fail to continue to compete successfully worldwide.

In addition, our competitors 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 continue to develop 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, competition may intensify, and we may be unable to continue to compete successfully in our markets, which could have a material adverse effect on our revenues, operating results, financial condition, and/or cash flows.

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

Non-U.S. sales accounted for approximately 83% of total revenue in fiscal year 2012, 88% of total revenue in fiscal year 2011, and 91% of total revenue in fiscal year 2010. We expect that international sales will continue to account for a substantial portion of our total revenue in future years.

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

- trade balance issues;
- global economic and political conditions, including the ongoing macroeconomic challenges associated with sovereign debt levels in certain Euro-zone countries and the financial contagion to global markets;
- changes in currency controls;
- differences in the enforcement of intellectual property and contract rights in varying jurisdictions;
- our ability to respond to customer and foreign government demands for locally sourced systems, spare parts and services and develop the necessary relationships with local suppliers;
- compliance with U.S. and international laws and regulations affecting foreign operations, including U.S. export restrictions;
- fluctuations in interest and foreign currency exchange rates;
- the need for technical support resources in different locations; and
- our ability to secure and retain qualified people in all necessary locations for the successful operation of our business.

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

We are potentially exposed to adverse as well as beneficial movements in foreign currency exchange rates. The majority of our sales and expenses are denominated in U.S. dollars. However, we are exposed to foreign currency exchange rate fluctuations related to certain of our revenues denominated in Japanese yen and Euros, as well as certain of our spares and service contracts, Euro denominated expenses, and expenses related to our non-U.S. sales and support offices that are denominated in the related countries' local currency.

We currently enter into foreign currency forward contracts to minimize the short-term impact of the foreign currency exchange rate fluctuations on Japanese yen-denominated ("JPY") revenue and monetary assets and liabilities, Euro-denominated ("EUR") expenses and monetary assets and liabilities, as well as monetary assets and liabilities denominated in Swiss francs ("CHF"), Taiwanese dollars ("TWD"), and Great British pounds ("GBP"). We believe these are our primary exposures to currency rate fluctuation. We expect to continue to enter into hedging transactions, for the purposes outlined, for the foreseeable future. However, these hedging transactions may not achieve their desired effect because differences between the actual timing of the underlying exposures and our forecasts of those exposures may leave us either over- or under-hedged on any given transaction. Moreover, by hedging these foreign currency denominated revenues, expenses, monetary assets and liabilities with foreign currency forward contracts, we may miss favorable currency trends that would have been advantageous to us but for the hedges. Additionally, we are exposed to short-term foreign currency exchange rate fluctuations on non-U.S. dollar-denominated ("USD") assets and liabilities (other than those currency exposures previously discussed) and currently we do not enter into foreign currency hedge contracts against these exposures. Therefore, we are subject to both favorable and unfavorable foreign currency exchange rate fluctuations to the extent that we transact business (including intercompany transactions) for these currencies.

#### ***Our Ability To Attract, Retain and Motivate Key Employees Is Critical To Our Success***

Our ability to compete successfully depends in large part on our ability to attract, retain and motivate key employees. This is an ongoing challenge due to intense competition for top talent, as well as fluctuations in industry economic conditions that may require cycles of hiring activity and workforce reductions. Our success in hiring depends on a variety of factors, including the attractiveness of our compensation and benefit programs and our ability to offer a challenging and rewarding work environment. We periodically evaluate our overall compensation programs and make adjustments, as appropriate, to maintain or enhance their competitiveness. If we are not able to successfully attract, retain and motivate key employees, we may be unable to capitalize on market opportunities and our operating results may be materially and adversely affected.

#### ***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 and maintained by us, our outsource providers or third parties such as vendors and contractors. 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. Confidential information stored on these information systems could be compromised. 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 mitigate 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, or unauthorized releases of confidential information, could unfavorably impact the timely and efficient operation of our business.

***Our Financial Results May be Adversely Impacted by Higher than Expected Tax Rates or Exposure to Additional Tax Liabilities***

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. We are subject to income taxes in the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. Our effective tax rate could be adversely affected by changes in the split of earnings between countries with differing statutory tax rates, in the valuation of deferred tax assets, in tax laws, by material audit assessments, or changes in or expirations of agreements with tax authorities. These factors could affect our profitability. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability.

***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 handling, discharge, and disposal of toxic, volatile or otherwise hazardous chemicals. We believe that we are generally in compliance with these regulations and that we have obtained (or will obtain or are otherwise addressing the need for) all environmental permits necessary to conduct our business. These permits generally relate to the handling and disposal of hazardous wastes. Nevertheless, the failure to comply with present or future regulations could result in fines being imposed on us, require us to suspend production, or cease operations or cause our customers to not accept our products. These regulations could require us to alter our current operations, to acquire significant additional equipment or to incur substantial other expenses to comply with environmental regulations. Any failure to comply with regulations governing the use, handling, sale, transport or disposal of hazardous substances could subject us to future liabilities.

***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 that no longer fit our long-term strategies. Managing an acquired business, disposing of product technologies or reducing personnel entail 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. 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 acquisition 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 Volatile, Which May Affect Our Ability to Raise Capital, Make Acquisitions, or Subject Our Business to Additional Costs***

The market price for our Common Stock is volatile and has fluctuated significantly over the past years. The trading price of our Common Stock could continue to be highly volatile and fluctuate widely in response to a variety of factors, many of which are not within our control or influence. These factors include but are not limited to the following:

- general market, semiconductor, or semiconductor equipment industry conditions;
- economic or political events and trends occurring globally or in any of our key sales regions;
- variations in our quarterly operating results and financial condition, including our liquidity;
- variations in our revenues, earnings or other business and financial metrics from forecasts by us or securities analysts, or from those experienced by other companies in our industry;
- announcements of restructurings, reductions in force, departure of key employees, and/or consolidations of operations;
- government regulations;
- developments in, or claims relating to, patent or other proprietary rights;
- technological innovations and the introduction of new products by us or our competitors;
- commercial success or failure of our new and existing products;
- disruptions of relationships with key customers or suppliers; or
- dilutive impacts of our Notes and related warrants.

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 their 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 our financial performance and the price for our Common Stock.

***Intellectual Property, Indemnity and Other Claims Against Us Can be Costly and We Could Lose Significant Rights That are Necessary to Our Continued Business and Profitability***

Third parties may assert infringement, unfair competition, product liability, breach of contract, 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, law enforcement authorities may seek criminal charges relating to intellectual property or other issues. We also face risks of claims arising from commercial and other relationships. 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 Research. From time to time, in the normal course of business, we indemnify third parties with whom we enter into contractual relationships, including customers and suppliers, with respect to certain matters. We have agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third party claims that our products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. 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, and we may be subject to substantial damage awards and penalties. Moreover, although we have insurance to protect us from certain claims and cover certain losses to our property, such insurance may not cover us for the full amount of any losses, or at all, and may be subject to substantial exclusions and deductibles.

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

Our success depends in part on our proprietary technology and our ability to protect key components of that technology through patents, copyrights and trade secret protection. Protecting our key proprietary technology helps us to achieve our goals of developing technological expertise and new products and systems that give us a competitive advantage; increasing market penetration and growth of our installed base; and providing comprehensive support and service to our customers. As part of our strategy to protect our technology 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. Additionally, even when patents are issued, the legal systems in certain of the countries in which we do business do not enforce patents and other intellectual property rights as rigorously as the United States. The rights granted or anticipated under any of our patents or pending patent applications may be narrower than we expect or, in fact, provide no competitive advantages. Any of these circumstances could have a material adverse impact on our business.

**Item 1B. *Unresolved Staff Comments***

None.

**Item 2. *Properties***

Our executive offices and principal operating and R&D facilities are located in Fremont, California, Livermore, California, San Jose, California, Tualatin, Oregon, and Villach, Austria. The Fremont and Livermore facilities are held under operating leases expiring in 2015 and the San Jose and Tualatin facilities are owned by the Company. Our Fremont and Livermore operating leases generally include options to renew or purchase the facilities. In addition, we lease or own properties for our service, technical support and sales personnel throughout the United States, Europe, Taiwan, Korea, Japan, and Asia Pacific and lease or own manufacturing facilities located in Eaton, Ohio, Rendsburg, Germany, Chandler, Arizona, and Des Plaines, Illinois. Our facilities lease obligations are subject to periodic increases. We believe that our existing facilities are well-maintained and in good operating condition.

**Item 3. *Legal Proceedings***

The Company is either a defendant or plaintiff in various actions that have arisen from time to time in the normal course of business, including intellectual property claims. The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, the Company believes that the amount of any such additional loss would be immaterial to the Company's business, financial condition, and results of operations.

**Item 4. *Mine Safety Disclosures***

Not applicable

## PART II

### Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

#### *Stock Information*

Our Common Stock is traded on the Nasdaq Global Select Market under the symbol LRCX. As of August 14, 2012 we had 458 stockholders of record. In fiscal years 2012 and 2011 we did not declare or pay cash dividends to our stockholders. We currently have no plans to declare or pay cash dividends. The table below sets forth the high and low prices of our common stock as reported by The NASDAQ Stock Market, Inc. for the period indicated:

	2012	
	High	Low
First Quarter . . . . .	\$46.27	\$34.92
Second Quarter . . . . .	\$45.48	\$34.81
Third Quarter . . . . .	\$45.04	\$36.15
Fourth Quarter . . . . .	\$45.29	\$35.84
	2011	
	High	Low
First Quarter . . . . .	\$43.76	\$35.39
Second Quarter . . . . .	\$52.91	\$36.77
Third Quarter . . . . .	\$59.10	\$46.27
Fourth Quarter . . . . .	\$57.41	\$41.77

#### *Repurchase of Company Shares*

On September 10, 2010, the Board of Directors authorized the repurchase of up to \$250 million of our common stock and on September 1, 2011 the Board of Directors authorized the repurchase of up to an additional \$500 million of our common stock. On December 14, 2011, the Board of Directors authorized the repurchase of up to \$1.6 billion of our common stock in conjunction with the acquisition of Novellus, which replaces the previous repurchase authorizations. These repurchases can be conducted on the open market or as private purchases and may include the use of derivative contracts with large financial institutions, in all cases subject to compliance with applicable law. Repurchases will be funded using our available cash. This repurchase program has no termination date and may be suspended or discontinued at any time.

As part of our share repurchase program, we may from time-to-time enter into structured share repurchase arrangements with financial institutions using general corporate funds. During fiscal year 2012 such arrangements included the following.

#### *Cash Enhanced Share Repurchases*

Under cash enhanced share repurchases, we are required to make an up-front cash payment in exchange for the right to receive shares of our common stock or cash at the expiration of the agreement, dependent upon the closing price of our common stock at the settlement date. During the year ended June 24, 2012, one such arrangement resulted in the receipt of 2.6 million shares upon settlement at an aggregate price of \$100.0 million and two such arrangements were settled in cash for an aggregate of \$130.2 million. All cash enhanced share repurchase agreements during fiscal year 2012 were executed prior to the December 2011 \$1.6 billion buyback authorization. As of June 24, 2012 there are no outstanding prepayments under such arrangements. Under these arrangements, any prepayments or cash payments at settlement are recorded as a component of Additional paid in capital in our Consolidated Balance Sheet.

### *Collared Accelerated Share Repurchases*

During the year ended June 24, 2012, we entered into two share repurchase transactions under one master repurchase arrangement. Under these collared accelerated share repurchase transactions (“ASRs”), we made up-front cash payments of \$375 million and \$200 million, respectively, three days after the respective trade date in exchange for an initial delivery of 6.6 million and 3.9 million shares of our common stock, respectively. The number of shares to ultimately be repurchased by us is based generally on the volume-weighted average price (“VWAP”) of our common stock during the term of the ASR minus a pre-determined, fixed discount set at inception of the ASR, subject to collar provisions that provide a minimum and maximum number of shares that we could repurchase under the agreements.

The minimum and maximum thresholds for each transaction are established based on the average of the VWAP prices for our common stock during an initial hedge period. We received incremental shares on top of the initial shares delivered such that the total number of shares received under the ASRs after the initial hedge period equaled 8.8 million and 4.8 million shares, representing the minimum number of shares to be delivered under the terms of the ASRs, respectively. The ASRs were scheduled to end on or before September 18, 2012 and October 9, 2012, respectively. However, each ASR is subject to acceleration at the option of the counterparty at any time after June 27, 2012 and July 19, 2012, respectively. At the conclusion of the ASRs, we may receive additional shares based on the VWAP of our common stock during the term of the agreement minus the pre-determined fixed discount, such that the total number of shares received under the ASRs does not exceed the maximum of 10.8 and 6.6 million shares, respectively.

We accounted for each ASR as two separate transactions: (a) as shares of common stock acquired in a treasury stock transaction recorded on the acquisition date and (b) as a forward contract indexed to our own common stock and classified in stockholders’ equity. As such, we accounted for the shares that we received under the ASRs as a repurchase of our common stock for the purpose of calculating earnings per common share. We have determined that the forward contracts indexed to our common stock met all of the applicable criteria for equity classification in accordance with the Derivatives and Hedging topic of the FASB ASC, and, therefore, the ASRs were not accounted for as derivative instruments. As of June 24, 2012, the aggregate repurchase price of \$575.0 million is reflected as Treasury stock, at cost, in our condensed consolidated balance sheet.

The counterparty designated July 6, 2012 as the accelerated termination date, at which time we settled the \$375 million ASR and received an additional 1.3 million shares of common stock in addition to the minimum shares already received, which represented a weighted average share price of approximately \$36.80 for the transaction period. The counterparty designated July 25, 2012 as the accelerated termination date, at which time we settled the \$200 million ASR and received an additional 0.7 million shares of common stock in addition to the minimum shares already received, which represented a weighted average share price of approximately \$36.12 for the transaction period.

Share repurchases, including those under the repurchase program, were as follows:

Period	Total Number of Shares Repurchased (1)	Average Price Paid Per Share*	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Amount Available Under Repurchase Program
		(in thousands, except per share data)		
Available balance as of June 26, 2011 . . . . .	—	\$ —	—	\$ 249,244
Authorization of additional \$500 million - September 2011 . . . . .	—	\$ —	—	\$ 749,244
Quarter ended September 25, 2011 . . . . .	2,063	\$37.83	1,977	\$ 674,957
Quarter ended December 25, 2011 . . . . .	2,955	\$38.79	2,860	\$ 564,320
Authorization of replacement \$1.6 billion plan - December 2011 . . . . .	—	\$ —	—	\$1,600,000
Quarter ended March 25, 2012 . . . . .	452	\$41.86	300	\$1,587,487
March 26, 2012 - April 25, 2012 . . . . .	82	\$44.49	—	\$1,587,487
April 26, 2012 - May 25, 2012 . . . . .	6,754	\$38.37	6,745	\$1,301,967
May 26, 2012 - June 24, 2012 . . . . .	<u>9,640</u>	<u>\$37.51</u>	<u>9,578</u>	<u>\$ 911,933</u>
Total . . . . .	<u>21,946</u>		<u>21,460</u>	

\* Average price excludes accelerated share repurchases that had not settled as of June 24, 2012 as the final price per share for these repurchases was not known until each transactions' settlement date in fiscal 2013.

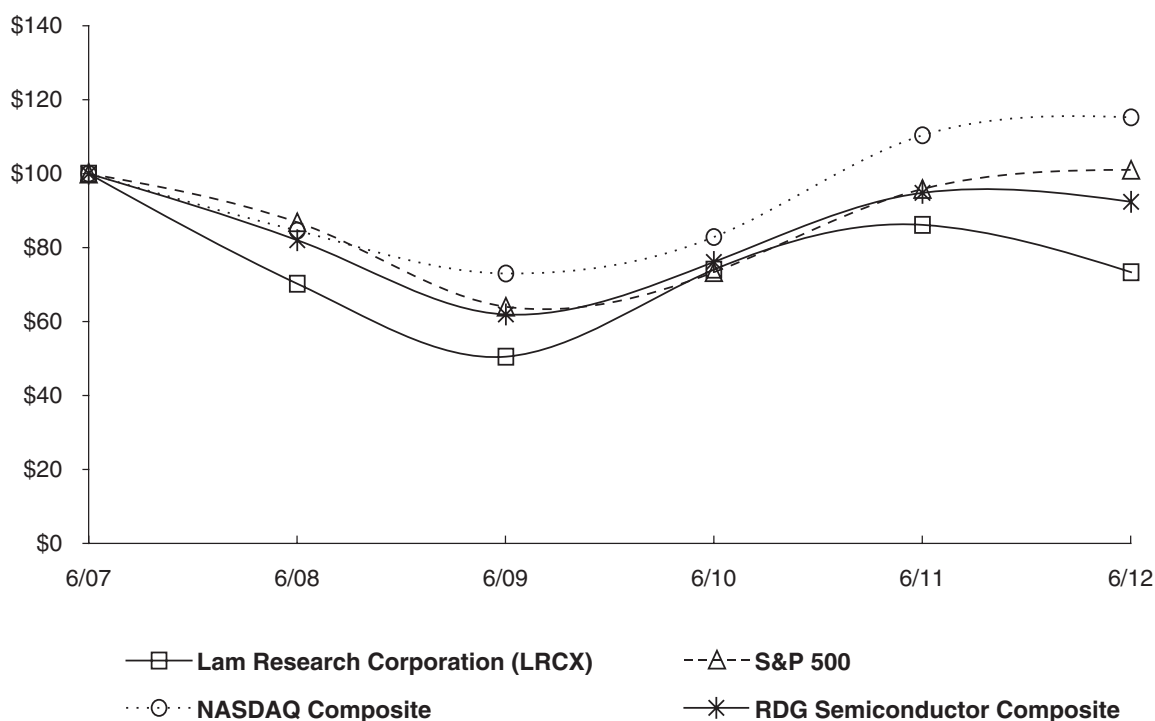
(1) In addition to shares repurchased under Board authorized repurchase programs, included in this column are 486,000 shares acquired at a total cost of \$20.5 million which the Company withheld through net share settlements to cover tax withholding obligations upon the vesting of restricted stock unit awards granted under the Company's equity compensation plans. The shares retained by the Company through these net share settlements are not a part of the Board-authorized repurchase program but instead are authorized under the Company's equity compensation plans.

**Cumulative 5-year Return**

The graph below compares Lam Research Corporation’s cumulative 5-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the Research Data Group, Incorporated (“RDG”) Semiconductor Composite index. The graph tracks the performance of a \$100 investment in our common stock and in each of the indices (with the reinvestment of all dividends) from June 30, 2007 to June 30, 2012.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Lam Research Corporation, the S&P 500 Index, the NASDAQ Composite Index, and the RDG Semiconductor Composite Index



\*\$100 invested on 6/30/07 in stock or index, including reinvestment of dividends. Fiscal year ending June 30.

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	<u>6/07</u>	<u>6/08</u>	<u>6/09</u>	<u>6/10</u>	<u>6/11</u>	<u>6/12</u>
<b>Lam Research Corporation (LRCX)</b> .....	<b>100.00</b>	<b>70.33</b>	<b>50.58</b>	<b>74.05</b>	<b>86.15</b>	<b>73.42</b>
<b>S&amp;P 500</b> .....	<b>100.00</b>	<b>86.88</b>	<b>64.10</b>	<b>73.35</b>	<b>95.87</b>	<b>101.09</b>
<b>NASDAQ Composite</b> .....	<b>100.00</b>	<b>84.54</b>	<b>73.03</b>	<b>82.88</b>	<b>110.33</b>	<b>115.30</b>
<b>RDG Semiconductor Composite</b> .....	<b>100.00</b>	<b>82.09</b>	<b>61.89</b>	<b>76.16</b>	<b>94.82</b>	<b>92.46</b>

**Item 6. Selected Financial Data** (derived from audited financial statements)

	Year Ended				
	June 24, 2012 (1)(2)	June 26, 2011 (1)	June 27, 2010 (1)	June 28, 2009 (1)	June 29, 2008 (1)
	(in thousands, except per share data)				
<b>OPERATIONS:</b>					
Revenue	\$2,665,192	\$3,237,693	\$2,133,776	\$1,115,946	\$2,474,911
Gross margin	1,084,069	1,497,232	969,935	388,734	1,173,406
Goodwill impairment (3)	—	—	—	96,255	—
Restructuring charges and asset impairments, net (4)	1,725	11,579	21,314	44,513	6,366
409A expense (5)	—	—	(38,590)	3,232	44,494
Legal judgment	—	—	—	4,647	—
In-process research and development	—	—	—	—	2,074
Operating income (loss)	237,733	804,285	425,410	(281,243)	509,431
Net income (loss)	168,723	723,748	346,669	(302,148)	439,349
Net income (loss) per share:					
Basic	\$ 1.36	\$ 5.86	\$ 2.73	\$ (2.41)	\$ 3.52
Diluted	\$ 1.35	\$ 5.79	\$ 2.71	\$ (2.41)	\$ 3.47
<b>BALANCE SHEET:</b>					
Working capital	\$2,988,181	\$2,592,506	\$1,198,004	\$ 855,064	\$1,280,028
Total assets	8,004,652	4,053,867	2,487,392	1,993,184	2,806,755
Long-term obligations, less current portion	1,255,600	903,263	160,600	158,019	385,132

- (1) Fiscal year 2012, 2011, 2010, 2009 and 2008 amounts include the operating results of SEZ from the acquisition date of March 11, 2008. The acquisition was accounted for as a business combination in accordance with the applicable accounting guidance.
- (2) Fiscal year 2012 amounts include the operating results of Novellus from the acquisition date of June 4, 2012. The acquisition was accounted for as a business combination in accordance with the applicable accounting guidance.
- (3) During fiscal year 2009, a combination of factors, including the economic environment, a sustained decline in our market valuation and a decline in our operating results indicated possible impairment of our goodwill. We conducted an analysis and concluded that the fair value of our Clean Product Group had been reduced below its carrying value. As a result, we recorded a non-cash goodwill impairment charge of approximately \$96.3 million during fiscal year 2009.
- (4) Restructuring charges and asset impairments, net exclude restructuring charges (releases) included in cost of goods sold and reflected in gross margin of (\$1.0) million, \$3.4 million, \$21.0 million, and \$12.6 million for fiscal years 2012, 2010, 2009, and 2008, respectively. Restructuring and asset impairment amounts included in cost of goods sold and reflected in gross margin during fiscal year 2012 related to a recorded obligation not realized for a previously restructured product line. Restructuring and asset impairment amounts included in cost of goods sold and reflected in gross margin during fiscal year 2010 primarily related to asset impairments for production efficiencies and shifts in product demands partially offset by the recovery of expenses related to previously impaired inventory. Restructuring amounts included in cost of goods sold and reflected in gross margin during fiscal year 2009 primarily relate to the Company's alignment of its cost structure with the outlook for the current economic environment and future business opportunities. Restructuring amounts included in cost of goods sold and reflected in gross margin during fiscal year 2008 primarily related to the integration of SEZ.
- (5) 409A expense excludes a credit included in cost of goods sold and reflected in gross margin of \$5.8 million in fiscal year 2010 related to a reversal of accrued liabilities due to final settlement of matters associated with our Internal Revenue Code Section 409A ("409A") expenses from the 2007 voluntary independent stock option review. 409A expense excludes an expense included in cost of goods sold and reflected in

gross margin of \$6.4 million during fiscal year 2008. Following a voluntary independent review of its historical stock option granting process, the Company considered whether Section 409A of the Internal Revenue Code of 1986, as amended (“IRC”), and similar provisions of state law, applied to certain stock option grants as to which, under the applicable accounting guidance, intrinsic value was deemed to exist at the time of the options’ measurement dates. If, under applicable tax principles, an employee stock option is not considered as granted with an exercise price equal to the fair market value of the underlying stock on the grant date, then the optionee may be subject to federal and state penalty taxes under Section 409A (collectively, “Section 409A liabilities”). On March 30, 2008, the Board of Directors authorized the Company (i) to assume potential Section 409A Liabilities, inclusive of applicable penalties and interest, of current and past employees arising from the exercise in 2006 or 2007 of Company stock options that vested after 2004, and (ii) if necessary, to compensate such employees for additional tax liability associated with that assumption.

	Three Months Ended (1)			
	June 24, 2012	March 25, 2012	December 25, 2011	September 25, 2011
	(in thousands, except per share data)			
QUARTERLY FISCAL YEAR 2012:				
Revenue . . . . .	\$741,814	\$658,961	\$583,981	\$680,436
Gross margin . . . . .	298,213	267,147	234,826	283,883
Restructuring and asset impairments - operating expenses . .	—	—	—	1,725
Operating income . . . . .	32,670	58,118	47,546	99,399
Net income . . . . .	18,069	45,604	33,212	71,838
Net income per share				
Basic . . . . .	\$ 0.13	\$ 0.38	\$ 0.28	\$ 0.58
Diluted . . . . .	\$ 0.13	\$ 0.38	\$ 0.27	\$ 0.58
Number of shares used in per share calculations:				
Basic . . . . .	133,997	119,841	119,739	123,130
Diluted . . . . .	135,842	120,956	120,873	124,049

	Three Months Ended (1)			
	June 26, 2011	March 27, 2011	December 26, 2010	September 26, 2010
	(in thousands, except per share data)			
QUARTERLY FISCAL YEAR 2011:				
Revenue . . . . .	\$752,018	\$809,087	\$870,714	\$805,874
Gross margin . . . . .	338,454	374,019	407,433	377,326
Restructuring and asset impairments - operating expenses . .	16,742	—	—	(5,163)
Operating income . . . . .	142,191	196,996	241,104	223,994
Net income . . . . .	125,928	182,240	221,856	193,724
Net income per share				
Basic . . . . .	\$ 1.02	\$ 1.47	\$ 1.80	\$ 1.57
Diluted . . . . .	\$ 1.01	\$ 1.45	\$ 1.78	\$ 1.55
Number of shares used in per share calculations:				
Basic . . . . .	123,863	123,674	123,101	123,665
Diluted . . . . .	125,086	125,293	124,786	125,202

(1) Our reporting period is a 52/53-week fiscal year. The fiscal years ended June 24, 2012 and June 26, 2011 both included 52 weeks. All quarters presented above included 13 weeks.

**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 2012 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 2012 Form 10-K).*

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) provides a description of our results of operations and should be read in conjunction with our Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in this 2012 Form 10-K. MD&A consists of the following sections:

*Executive Summary* provides a summary of the key highlights of our results of operations and our management’s assessment of material trends and uncertainties relevant to our business.

*Results of Operations* provides an analysis of operating results.

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

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

***Executive Summary***

We design, manufacture, market, refurbish, and service semiconductor processing equipment used in the fabrication of integrated circuits and are recognized as a major provider of such equipment to the worldwide semiconductor industry. Our customers include semiconductor manufacturers that make DRAM, flash memory, microprocessors, and other logic integrated circuits for a wide range of consumer and industrial electronics. Semiconductor wafers are subjected to a complex series of process and preparation steps that result in the simultaneous creation of many individual integrated circuits. We leverage our expertise in semiconductor processing to develop technology and productivity solutions that typically benefit our customers through lower defect rates, enhanced yields, faster processing time, and reduced cost as well as by facilitating their ability to meet more stringent performance and design standards.

The semiconductor capital equipment industry is cyclical in nature and has historically experienced periodic and pronounced changes in customer demand resulting in industry downturns and upturns. Today’s leading indicators of change in customer investment patterns, such as electronics demand, memory pricing, and foundry utilization rates, 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 (both general and in the semiconductor and electronics industries), supply, demand, prices for semiconductors, customer capacity requirements, and our ability to develop, acquire, and market competitive products. For these and other reasons, our results of operations during any particular fiscal period are not necessarily indicative of future operating results.

Demand for our products declined in fiscal year 2012 as semiconductor device manufacturers slowed the pace of their capacity expansions in response to weaker macroeconomic conditions impacting demand for certain semiconductor devices. In spite of the slowing pace of capacity expansion, particularly in the memory segment, our customers continued to invest in leading edge technologies over this period. We believe that, over the long term, demand for our products will increase as customers’ capital expenditures rise to meet growing demand for semiconductor devices, particularly in mobile markets, and address the increasing complexity of semiconductor manufacturing.



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

	Year Ended						
	June 24, 2012	June 26, 2011	June 27, 2010				
	(in thousands, except per share data and percentages)						
Revenue .....	\$2,665,192	\$3,237,693	\$2,133,776	\$(572,501)	-17.7%	\$1,103,917	51.7%
Gross margin .....	1,084,069	1,497,232	969,935	\$(413,163)	-27.6%	\$ 527,297	54.4%
Gross margin as a percent of total revenue .....	40.7%	46.2%	45.5%	-5.5%		0.7%	
Total operating expenses ....	846,336	692,947	544,525	\$ 153,389	22.1%	\$ 148,422	27.3%
Net income .....	168,723	723,748	346,669	\$(555,025)	-76.7%	\$ 377,079	108.8%
Diluted net income per share .....	\$ 1.35	\$ 5.79	\$ 2.71	\$ (4.44)	-76.7%	\$ 3.08	113.7%

On June 4, 2012 we completed our acquisition of Novellus Systems, Inc (“Novellus”). Results for fiscal year 2012 include Novellus operations from the acquisition date through June 24, 2012. Lam’s primary reasons for this acquisition were to complement existing product offerings and to provide opportunities for revenue and cost synergies.

Fiscal year 2012 revenues decreased 18% compared to fiscal year 2011, primarily reflecting the decrease in customer capacity investments as noted above. The decrease in gross margin as a percentage of revenue for the fiscal year 2012 compared to fiscal year 2011 was due primarily to decreased factory and field utilization as a result of lower volume, and less favorable customer and product mix. Operating expenses in fiscal year 2012 increased as compared to fiscal year 2011 primarily related to continued investments in next-generation research and development and the customer facing activities that surround and support it and costs associated with the Novellus acquisition and integration.

Our cash and cash equivalents, short-term investments, and restricted cash and investments balances totaled approximately \$3.0 billion as of June 24, 2012 compared to \$2.3 billion as of June 26, 2011. This increase included the impact of \$1.1 billion acquired in connection with the Novellus acquisition, offset by \$773 million of share repurchases. We generated approximately \$499 million in net cash provided by operating activities during fiscal year 2012, compared to net cash provided by operating activities of \$881 million in fiscal year 2011. The decreased operating cash flows in fiscal year 2012 versus fiscal year 2011 were primarily a result of lower revenue, increased investments in research and development, and costs related to the Novellus acquisition.

## Results of Operations

### Shipments and Backlog

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
Shipments (in millions)	\$2,672	\$3,306	\$2,304
Korea .....	36%	21%	27%
Taiwan .....	18%	23%	32%
North America .....	17%	13%	8%
Asia Pacific .....	11%	17%	11%
Japan .....	10%	13%	15%
Europe .....	8%	13%	7%

Shipments for fiscal year 2012 were approximately \$2.7 billion and decreased by 19% compared to fiscal year 2011. Shipments for fiscal year 2011 were approximately \$3.3 billion and increased by 43% compared to

fiscal year 2010. The decrease in shipments during fiscal year 2012 as compared to fiscal year 2011 related to change in demand for semiconductor equipment, especially in the first half of fiscal year 2012. The increase in shipments from fiscal year 2010 to 2011 reflects improvements in the industry and economic environments.

During fiscal year 2012, applications at or below the 45 nanometer technology node were 93% of total systems shipments. During fiscal year 2011, applications at or below the 65 nanometer technology node were 90% of total systems shipments. During fiscal year 2012 the memory market segment, foundry segment, and logic/integrated device manufacturing segment were approximately 45%, 46% and 9% of system shipments, respectively. During fiscal year 2011 the memory market segment, foundry segment, and logic/integrated device manufacturing segment were approximately 49%, 32% and 19% of system shipments, respectively. Starting with the December 2011 quarter we have modified the foundry category to include manufacturers that have a majority of their logic capacity available for the foundry business. These shipments were previously reported in the logic/integrated device manufacturing category.

Unshipped orders in backlog as of June 24, 2012 were approximately \$870 million and increased from approximately \$641 million as of June 26, 2011. Our unshipped orders backlog includes orders for systems, spares, and services. Please refer to “Backlog” in Part I Item 1, “Business” of this report for a description of our policies for adding to and adjusting backlog.

### Revenue

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
Revenue (in millions) . . . . .	\$2,665	\$3,238	\$2,134
Korea . . . . .	33%	23%	25%
Taiwan . . . . .	18%	24%	33%
North America . . . . .	17%	12%	9%
Japan . . . . .	12%	13%	15%
Asia Pacific . . . . .	11%	15%	12%
Europe . . . . .	9%	13%	6%

The revenue decrease in fiscal year 2012 as compared to fiscal year 2011 was due to the decrease in customer capacity investments. The revenue increase during fiscal year 2011 compared to 2010 reflected improvements in the industry and economic environments. Our revenue levels are generally correlated to the amount of shipments and our installation and acceptance timelines. The overall Asia region continues to account for a majority of our revenues as a substantial amount of the worldwide capacity additions for semiconductor manufacturing continues to occur in this region. Our deferred revenue balance increased to \$335.4 million as of June 24, 2012 compared to \$257.6 million as of June 26, 2011, due to the addition of Novellus-related activity and increased customer shipment levels in the second half of fiscal year 2012. Our deferred revenue balance does not include shipments to Japanese customers, to whom title does not transfer until customer acceptance. Shipments to Japanese customers are classified as inventory at cost until the time of customer acceptance. The anticipated future revenue value from shipments to Japanese customers was approximately \$23 million as of June 24, 2012 compared to \$70 million as of June 26, 2011.

### Gross Margin

	Year Ended			FY12 vs. FY11	FY11 vs. FY10		
	June 24, 2012	June 26, 2011	June 27, 2010				
	(in thousands, except percentages)						
Gross margin . . . . .	\$1,084,069	\$1,497,232	\$969,935	\$(413,163)	-27.6%	\$527,297	54.4%
Percent of total revenue . . . . .	40.7%	46.2%	45.5%	-5.5%			0.7%

The decrease in gross margin as a percentage of revenue for fiscal year 2012 compared to fiscal year 2011 was due primarily to decreased factory and field utilization as a result of lower volume, and less favorable customer and product mix.

The increase in gross margin as a percentage of revenue for fiscal year 2011 compared to fiscal year 2010 was due primarily to increased factory and field utilization as a result of higher volume.

#### *Research and Development*

	Year Ended			FY12 vs. FY11	FY11 vs. FY10
	June 24, 2012	June 26, 2011	June 27, 2010		
	(in thousands, except percentages)				
Research & development ("R&D") . . . . .	\$444,559	\$373,293	\$320,859	\$71,266	19.1%
Percent of total revenue . . . . .	16.7%	11.5%	15.0%	5.2%	-3.5%

We continued to make significant R&D investments focused on leading-edge plasma etch, single-wafer clean and other semiconductor manufacturing requirements. The increase in R&D spending during fiscal year 2012 compared to fiscal year 2011 was due primarily to an \$18 million increase in salary and benefits as a result of higher headcount, a \$21 million increase in supplies, and an \$11 million increase in depreciation related to new product development. Also included in our results are \$11 million of Novellus-related R&D expenses that were incurred in the June 2012 quarter from acquisition date through June 24, 2012.

The increase in R&D spending during fiscal year 2011 compared to fiscal year 2010 was due primarily to a \$27 million increase in employee compensation and benefits, mainly as a result of higher headcount and stronger company profitability, and a \$19 million increase in outside services and supplies related to new product development.

Approximately 30% of both fiscal years 2012 and 2011 systems revenues were derived from products introduced over the previous two years, which is reflective of our continued investment in new products and technologies.

#### *Selling, General and Administrative*

	Year Ended			FY12 vs. FY11	FY11 vs. FY10
	June 24, 2012	June 26, 2011	June 27, 2010		
	(in thousands, except percentages)				
Selling, general & administrative ("SG&A") . . . . .	\$400,052	\$308,075	\$240,942	\$91,977	29.9%
Percent of total revenue . . . . .	15.0%	9.5%	11.3%	5.5%	-1.8%

The increase in SG&A expense during fiscal year 2012 compared to fiscal year 2011 was due primarily to \$63 million in expenses related to the Novellus acquisition and integration and \$13 million of Novellus related SG&A expenses, including \$4 million of intangible asset amortization, incurred in the June 2012 quarter from acquisition date through June 24, 2012.

The growth in SG&A expense during fiscal year 2011 compared to fiscal year 2010 was due primarily to a \$44 million increase in employee compensation and benefits, mainly as a result of higher headcount and stronger company profitability, and an \$18 million increase in outside services and supplies for customer penetration activities. Rent and depreciation-related expenses increased in fiscal year 2011 from fiscal year 2010 by approximately \$13 million. The increases in SG&A expenses during fiscal year 2011 were offset by the release of approximately \$4 million of previously reserved allowance for doubtful accounts as the result of cash collections from customers.

### *Restructuring and Asset Impairments*

During fiscal year 2012 we incurred restructuring and asset impairment charges of \$0.9 million, consisting of a \$1.7 million expense related to a decline in the market value of certain facilities partially offset by the release of \$0.8 million related to a recorded obligation not realized for a previously restructured product line. During fiscal year 2011 we incurred restructuring and asset impairment charges of \$11.6 million consisting primarily of certain facilities charges related to the reassessment of future obligations for previously restructured leases. During fiscal year 2010 we incurred restructuring and asset impairment charges of \$24.8 million, consisting primarily of \$19.8 million of facilities charges related to the reassessment of future obligations for certain previously restructured leases and \$6.0 million of asset impairment charges related to production efficiencies and shifts in product demands, partially offset by a recovery of \$2.2 million related to inventory previously restructured in connection with our initial product line integration road maps.

For further details related to restructuring and asset impairment, see Note 19 of the Notes to Consolidated Financial Statements.

### *409A Expense*

In fiscal year 2008, following the voluntary independent review of our historical option grant process, we considered whether Section 409A of the Internal Revenue Code and similar provisions of state law would apply to stock options that were found to have intrinsic value at the time of their respective measurement dates. If a stock option is not considered as issued with an exercise price of at least the fair market value of the underlying stock, it may be subject to penalty taxes under Section 409A and similar provisions of state law. In such a case, taxes may be assessed not only on the intrinsic value increase, but on the entire stock option gain as measured at various times. On March 30, 2008, our Board of Directors authorized us to assume potential tax liabilities of certain employees, relating to options that might be subject to Section 409A and similar provisions of state law. Those liabilities totaled \$50.9 million for fiscal year 2008 and an incremental \$3.2 million of expense during fiscal year 2009. During fiscal year 2010, we reached final settlement of matters associated with our 409A expenses with the Internal Revenue Service (“IRS”) and California Franchise Tax Board (“FTB”) resulting in a credit of \$44.4 million due to the reversal of 409A liabilities. There were no expenses or reversals related to Section 409A during fiscal year 2011 or 2012.

### *Other Income (Expense), Net*

Other income (expense), net, consisted of the following:

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
		(in thousands)	
Interest income . . . . .	\$ 12,141	\$ 9,890	\$ 8,682
Interest expense . . . . .	(38,962)	(5,380)	(994)
Gains (losses) on deferred compensation plan related assets . . . . .	(914)	5,682	(84)
Foreign exchange gain (loss) . . . . .	(397)	(11,085)	(103)
Other, net . . . . .	(5,183)	(2,516)	(2,770)
	<u>\$ (33,315)</u>	<u>\$ (3,409)</u>	<u>\$ 4,731</u>

The increase in interest income during fiscal year 2012 as compared with fiscal year 2011 and during fiscal year 2011 compared with fiscal year 2010 was primarily due to increases in our average cash and investment balances from cash provided by operations and proceeds from convertible note financing, which was partially offset by treasury stock transactions and the decrease in interest rate yields.

The increase in interest expense during fiscal year 2012 as compared with fiscal year 2011 and during fiscal year 2011 as compared with fiscal year 2010 was primarily due to the issuance of the \$900 million convertible notes during May 2011.

Foreign exchange losses in fiscal year 2012 were related to un-hedged portions of the balance sheet exposures. Foreign exchange losses in fiscal year 2011 were related to un-hedged portions of the balance sheet exposures, primarily in the Euro, Korean Won, and Singapore dollar.

Other expenses during fiscal year 2012 increased as compared to fiscal year 2011 primarily due to increased charitable contributions.

#### *Income Tax Expense*

Our annual income tax expense was \$35.7 million, \$77.1 million, and \$83.5 million in fiscal years 2012, 2011, and 2010, respectively. Our effective tax rate for fiscal years 2012, 2011, and 2010 was 17.5%, 9.6%, and 19.4%, respectively. The increase in the effective tax rate in fiscal year 2012 as compared to fiscal year 2011 was primarily due to the level of income, the change in geographical mix of income between higher and lower tax jurisdictions, decrease in federal R&D tax credit due to the expiration of the credit on December 31, 2011, increase in non-deductible stock based compensation, and non-deductible acquisition costs. The decrease in the effective tax rate in fiscal year 2011 as compared to fiscal year 2010 was primarily due to the change in geographical mix of income between higher and lower tax jurisdictions, tax benefits related to the recognition of previously unrecognized tax benefits due to the settlement of audits, and tax benefit due to the extension of the second half of fiscal year 2010 federal R&D tax credit.

#### *Deferred Income Taxes*

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the tax effect of carryforwards. Our gross deferred tax assets, composed primarily of reserves and accruals that are not currently deductible and tax credit carryforwards, were \$253.7 million and \$160.6 million at the end of fiscal years 2012 and 2011, respectively. These gross deferred tax assets were offset by deferred tax liabilities of \$285.6 million and \$45.1 million at the end of fiscal years 2012 and 2011, respectively, and a valuation allowance of \$55.2 million and \$46.2 million at the end of fiscal years 2012 and 2011, respectively. The change in the gross deferred tax assets and deferred tax liabilities between fiscal year 2012 and 2011 is primarily as a result of our acquisition of Novellus.

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 fiscal years 2012 and 2011 valuation allowance of \$55.2 million and \$46.2 million relate to California and certain foreign deferred tax assets.

At our fiscal year end of June 24, 2012 we continued to record a valuation allowance to offset the entire California deferred tax asset balance due to the impact of the cost of performance sales factor sourcing rule and the single sales factor apportionment election. Additionally, we recorded valuation allowance related to tax assets established in purchase price accounting. We released valuation allowance on certain foreign entities' deferred tax assets due to an increase in the forecasted income and indefinite net operating loss carryforward period in those jurisdictions.

We evaluate the realizability of the deferred tax assets quarterly and will continue to assess the need for changes in valuation allowances, if any.

#### *Uncertain Tax Positions*

We reevaluate uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

#### *Critical Accounting Policies and Estimates*

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) 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 we believed to be applicable and evaluate them on an ongoing basis to ensure they remain 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 Consolidated Financial Statements. Some of these significant accounting policies 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 regarding estimates about matters that are inherently uncertain.

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

*Revenue Recognition:* We recognize all revenue when persuasive evidence of an arrangement exists, delivery has occurred and title has passed or services have been rendered, the selling price is fixed or determinable, collection of the receivable is reasonably assured, and we have received customer acceptance, completed our system installation obligations, or are otherwise released from our installation or customer acceptance obligations. If 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. If the practices of a customer do not provide for a written acceptance or the terms of sale do not include a lapsing acceptance provision, we recognize revenue when it can be reliably demonstrated that the delivered system meets all of the agreed-to customer specifications. In situations with multiple deliverables, we recognize revenue 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. We allocate revenue from multiple-element arrangements among the separate elements based on their relative selling prices, provided the elements have value on a stand-alone basis. Our sales arrangements do not include a general right of return. The maximum revenue we recognize on a delivered element is limited to the amount that is not contingent upon the delivery of additional items. We generally recognize revenue related to sales of spare parts and system upgrade kits upon shipment. We generally recognize revenue related to services upon completion of the services requested by a customer order. We recognize revenue for extended maintenance service contracts with a fixed payment amount on a straight-line basis over the term of the contract. When goods or services have been delivered to the customer but all conditions for revenue recognition have not been met, we record deferred revenue and/or deferred costs of sales in deferred profit on our Consolidated Balance Sheet.

*Inventory Valuation:* Inventories are stated at the lower of cost or market using standard costs that generally 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. Unless specified in the terms of sale, title generally transfers when we complete physical transfer of the products to the freight carrier. Transfer of title for shipments to Japanese customers generally occurs at the time of customer acceptance.

We reassess standard costs as needed but annually at a minimum, and reflect achievable acquisition costs. Acquisition costs are generally based on the most recent vendor contract prices for purchased parts, normalized assembly and test labor utilization levels, methods of manufacturing, and normalized overhead. Manufacturing labor and overhead costs are attributed to individual product standard costs at a level planned to absorb spending at average utilization volumes. We eliminate all intercompany profits related to the sales and purchases of inventory between our legal entities 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. Estimates of market value include, but are not limited to, management's forecasts related to our future manufacturing schedules, customer demand, technological and/or market obsolescence, general semiconductor market conditions, and possible alternative uses. 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 goods sold in the period in which we make the revision.

*Warranty:* Typically, the sale of semiconductor capital equipment includes providing parts and service warranty to customers as part of the overall price of the system. We provide standard warranties for our systems. When appropriate, we record a provision for estimated warranty expenses to cost of sales for each system when we recognize revenue. We do not maintain general or unspecified reserves; all warranty reserves are related to specific systems. The amount recorded is based on an analysis of historical activity that uses factors such as type of system, customer, geographic region, and any known factors such as tool reliability trends. All actual or estimated parts and labor costs incurred in subsequent periods are charged to those established reserves on a system-by-system basis.

Actual warranty expenses are accounted for 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. In addition to the provision of standard warranties, we offer customer-paid extended warranty services. Revenues for extended maintenance and warranty services with a fixed payment amount are recognized on a straight-line basis over the term of the contract. Related costs are recorded as incurred.

*Equity-based Compensation — Employee Stock Purchase Plan (“ESPP”) and Employee Stock Plans:* GAAP requires us to recognize the fair value of equity-based compensation in net income. We determine the fair value of our restricted stock units (“RSUs”) based upon the fair market value of Company stock at the date of grant. We estimate the fair value of our stock options and ESPP awards using the Black-Scholes option valuation model. This model requires us to input highly subjective assumptions, including expected stock price volatility and the estimated life of each award. We amortize the fair value of equity-based awards over the vesting periods of the awards, and we have elected to use the straight-line method of amortization.

We make quarterly assessments of the adequacy of our tax credit pool related to equity-based compensation to determine if there are any deficiencies that we are required to recognize in our Consolidated Statements of Operations. We will only recognize a benefit from stock-based compensation in paid-in-capital if we realize an incremental tax benefit after all other tax attributes currently available to us have been utilized. In addition, we have elected to account for the indirect benefits of stock-based compensation on the research tax credit through

the income statement (continuing operations) rather than through paid-in-capital. We have also elected to net deferred tax assets and the associated valuation allowance related to net operating loss and tax credit carryforwards for the accumulated stock award tax benefits for income tax footnote disclosure purposes. We will track these stock award attributes separately and will only recognize these attributes through paid-in-capital.

*Income Taxes:* Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the tax effect of carryforwards. 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 the time. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more-likely-than-not that the deferred tax assets would be realized, then the previously provided valuation allowance would be reversed.

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

We recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. Please refer to Note 15 of the Notes to the Consolidated Financial Statements for additional information.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period such determination is made.

*Goodwill and Intangible Assets:* Goodwill represents the amount by which the purchase price in each business combination exceeds the fair value of the net tangible and identifiable intangible assets acquired. We allocate the carrying value of goodwill to our reporting units. We test goodwill and identifiable intangible assets with indefinite useful lives for impairment at least annually. We amortize intangible assets with estimable useful lives over their respective estimated useful lives, and we review for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable and the carrying amount exceeds its fair value.

We review goodwill at least annually for impairment. If certain events or indicators of impairment occur between annual impairment tests, we would perform an impairment test of goodwill at that date. In testing for a potential impairment of goodwill, we: (1) allocate goodwill to our reporting units to which the acquired goodwill relates; (2) estimate the fair value of our reporting units; and (3) determine the carrying value (book value) of those reporting units, as some of the assets and liabilities related to those reporting units are not held by those reporting units but by a corporate function. Prior to this allocation of the assets to the reporting units, we are



required to assess long-lived assets for impairment. Furthermore, if the estimated fair value of a reporting unit is less than the carrying value, we must estimate the fair value of all identifiable assets and liabilities of that reporting unit, in a manner similar to a purchase price allocation for an acquired business. This can require independent valuations of certain internally generated and unrecognized intangible assets such as in-process R&D and developed technology. Only after this process is completed can the amount of goodwill impairment, if any, be determined. Beginning with our fiscal year 2012 goodwill impairment analysis, we adopted new accounting guidance that allowed us to first assess qualitative factors to determine whether it was necessary to perform a quantitative analysis. Under the revised guidance, an entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount.

The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. We determine the fair value of our reporting units by using a weighted combination of both a market and an income approach, as this combination is deemed to be the most indicative of fair value in an orderly transaction between market participants.

Under the market approach, we use information regarding the reporting unit as well as publicly available industry information to determine various financial multiples to value our reporting units. Under the income approach, we determine fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn.

In estimating the fair value of a reporting unit for the purposes of our annual or periodic analyses, we make estimates and judgments about the future cash flows of our reporting units, including estimated growth rates and assumptions about the economic environment. Although our cash flow forecasts are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying businesses, there is significant judgment involved in determining the cash flows attributable to a reporting unit. In addition, we make certain judgments about allocating shared assets to the estimated balance sheets of our reporting units. We also consider our market capitalization and that of our competitors on the date we perform the analysis. Changes in judgment on these assumptions and estimates could result in a goodwill impairment charge.

As a result, several factors could result in impairment of a material amount of our goodwill balance in future periods, including, but not limited to: (1) weakening of the global economy, weakness in the semiconductor equipment industry, or our failure to reach our internal forecasts, which could impact our ability to achieve our forecasted levels of cash flows and reduce the estimated discounted cash flow value of our reporting units; and (2) a decline in our stock price and resulting market capitalization, if we determine that the decline is sustained and indicates a reduction in the fair value of our reporting units below their carrying value. In addition, the value we assign to intangible assets, other than goodwill, is based on our estimates and judgments regarding expectations such as the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from our estimates, we may be required to record an impairment charge to write down the asset to its realizable value.

#### *Recent Accounting Pronouncements*

In June 2011, the Financial Accounting Standards Board (“FASB”) issued new authoritative guidance that increases the prominence of items reported in other comprehensive income (“OCI”) by eliminating the option to present components of OCI as part of the statement of changes in stockholders’ equity. The amendments in this standard require that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance does not affect the underlying accounting for components of OCI, but will change the presentation of our financial statements. We will adopt this authoritative guidance retrospectively in the first quarter of our fiscal year 2013.

In September 2011, the FASB issued revised guidance intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount. We adopted this guidance during fiscal year 2012 and it did not have a significant impact on the results of our annual goodwill impairment assessment.

### *Liquidity and Capital Resources*

Total gross cash, cash equivalents, short-term investments, and restricted cash and investments balances were \$3.0 billion at the end of fiscal year 2012 compared to \$2.3 billion at the end of fiscal year 2011. This increase was primarily due to cash provided by operations and cash acquired in connection with the acquisition of Novellus, which was offset by \$773 million of share repurchases.

### *Cash Flows from Operating Activities*

Net cash provided by operating activities of \$499 million during fiscal year 2012 consisted of (in millions):

Net income	\$168.7
Non-cash charges:	
Depreciation and amortization	100.8
Equity-based compensation	81.6
Restructuring charges, net	0.9
Net tax benefit on equity-based compensation plans	(1.2)
Deferred income taxes	42.4
Amortization of convertible note discount	27.0
Impairment of investment	1.7
Changes in operating asset and liability accounts	66.2
Other	10.9
	<u>\$499.0</u>

Significant changes in operating asset and liability accounts, net of foreign exchange impact, included the following sources of cash: decreases in inventories of \$74.0 million, accounts receivable of \$66.1 million, and prepaid and other assets of \$43.2 million and an increase in accounts payable of \$12.1 million, partially offset by the following uses of cash: decreases in accrued liabilities of \$120.0 million and deferred profit of \$9.2 million.

### *Cash Flows from Investing Activities*

Net cash provided by investing activities during fiscal year 2012 was \$269.7 million which was primarily due to \$418.7 million cash acquired in connection with the acquisition of Novellus, partially offset by capital expenditures of \$107.3 million and net purchases of available-for-sale securities and other investment of \$52.7 million.

### *Cash Flows from Financing Activities*

Net cash used for financing activities during fiscal year 2012 was \$692.7 million which was primarily due to \$772.7 million in treasury stock repurchases, partially offset by \$55.2 million net cash settlements under structured stock repurchase arrangement (see Note 20 of Notes to Condensed Consolidated Financial Statements) and net proceeds from issuance of common stock related to employee equity-based plans of \$27.3 million.

### Liquidity

Given the cyclical nature of the semiconductor equipment industry, we believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in R&D and capital infrastructure. Based upon our current business outlook, we expect that our levels of cash, cash equivalents, and short-term investments at June 24, 2012 will be sufficient to support our presently anticipated levels of operations, investments, debt service requirements, and capital expenditures, through at least the next 12 months.

In the longer term, liquidity will depend to a great extent on our future revenues and our ability to appropriately manage our costs based on demand for our products and services. While we have substantial cash balances in the United States and offshore, we may require additional funding and need to raise the required funds through borrowings or public or private sales of debt or equity securities. We believe that, if necessary, 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.

### Off-Balance Sheet Arrangements and Contractual Obligations

We have certain obligations to make future payments under various contracts, some of which are recorded on our balance sheet and some of which are not. Obligations are recorded on our balance sheet in accordance with GAAP and include our long-term debt which is outlined in the following table and noted 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 as of June 24, 2012, relating to these agreements and our guarantees are included in the following table. The amounts in the table below exclude \$274.2 million of liabilities related to uncertain tax benefits as we are unable to reasonably estimate the ultimate amount or time of settlement. See Note 15 of Notes to the Consolidated Financial Statements for further discussion.

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>	<u>Sublease Income</u>
			(in thousands)			
Operating Leases	\$ 37,381	\$ 15,620	\$22,497	\$ 10,663	\$ 1,423	\$(12,822)
Capital Leases	15,136	1,877	3,181	10,078	—	—
Purchase Obligations	142,138	125,403	13,037	3,698	—	—
Long-term Debt and Interest Expense	2,174,198	26,248	52,497	500,528	1,594,925	—
Total	<u>\$2,368,853</u>	<u>\$169,148</u>	<u>\$91,212</u>	<u>\$524,967</u>	<u>\$1,596,348</u>	<u>\$(12,822)</u>

### 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. Certain of our facility leases for buildings located at our Fremont, California headquarters, Livermore facilities, and certain other facility leases provide us with an option to extend the leases for additional periods or to purchase the facilities. Certain of our facility leases provide for periodic rent increases based on the general rate of inflation. In addition to amounts included in the table above, we have guaranteed residual values for certain of our Fremont and Livermore facility leases of up to \$164.9 million. See Note 14 of Notes to the Consolidated Financial Statements for further discussion.

### Capital Leases

Capital leases reflect building and office equipment lease obligations. The amounts in the table above include the interest portion of payment obligations.

### *Purchase Obligations*

Purchase obligations consist of significant contractual obligations either on an annual basis or over multi-year periods related to our outsourcing activities or other material commitments, including vendor-consigned inventories. We continue to enter into new agreements and maintain existing agreements to outsource certain activities, including elements of our manufacturing, warehousing, logistics, facilities maintenance, certain information technology functions, and certain transactional general and administrative functions. The contractual cash obligations and commitments table presented above contains our minimum obligations at June 24, 2012 under these arrangements and others. For obligations with cancellation provisions, the amounts included in the preceding table were limited to the non-cancelable portion of the agreement terms or the minimum cancellation fee. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to these obligations, certain of these agreements include early termination provisions and/or cancellation penalties which could increase or decrease amounts actually paid.

### *Long-Term Debt*

On May 11, 2011, we issued and sold \$450.0 million in aggregate principal amount of 0.5% convertible notes due 2016 (the "2016 Notes") and \$450.0 million in aggregate principal amount of 1.25% convertible notes due 2018 (the "2018 Notes," and collectively with the "2016 Notes", the "Notes"). The 2016 Notes were issued at par and pay interest at a rate of 0.5% per annum and the 2018 Notes were issued at par and pay interest at rate of 1.25% per annum. The Notes may be converted into our common stock, under certain circumstances, based on an initial conversion rate of 15.8687 shares of our common stock per \$1,000 principal amount of Notes, which is equal to a conversion price of approximately \$63.02 per share of our common stock. The conversion price will be subject to adjustment in some events but will not be adjusted for accrued interest. Concurrently with the issuance of the Notes, we purchased convertible note hedges for \$181.1 million and sold warrants for \$133.8 million. The separate convertible note hedges and warrant transactions are structured to reduce the potential future economic dilution associated with the conversion of the Notes.

In June 2012, with the acquisition of Novellus, we assumed \$700 million in aggregate principal amount of 2.625% Convertible Senior Notes due May 2041 (the "2041 Notes"). The 2041 Notes were issued at par and pay interest at a rate of 2.625% per annum. The 2041 Notes may be converted, under certain circumstances, into our common stock based on an initial conversion rate of 28.4781 shares of common stock per \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$35.11 per share of common stock.

During fiscal year 2012, 2011, and 2010 we made \$5.3 million, \$4.5 million, and \$21.0 million, respectively, in principal payments on long-term debt and capital leases, respectively.

### *Other Guarantees*

We have issued certain indemnifications to our lessors for taxes and general liability under some of our agreements. We have entered into certain insurance contracts that may limit our exposure to such indemnifications. As of June 24, 2012, we had not recorded any liability on our Consolidated Financial Statements in connection with these indemnifications, as we do not believe, based on information available, that it is probable that we will pay any amounts under these guarantees.

Generally, we indemnify, under pre-determined conditions and limitations, our customers 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 price of the products or services subject to its indemnification obligations. We do not believe, based on information available, that it is probable that we will pay any material amounts under these guarantees.

We provide guarantees and standby letters of credit to certain parties as required for certain transactions initiated during the ordinary course of business. As of June 24, 2012, the maximum potential amount of future payments that we could be required to make under these arrangements and letters of credit was \$19.9 million. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid.

#### *Warranties*

We offer standard warranties on our systems. The liability amount is based on actual historical warranty spending activity by type of system, customer, and geographic region, modified for any known differences such as the impact of system reliability improvements.

#### **Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

##### **Investments**

We maintain an investment portfolio of various holdings, types, and maturities. As of June 24, 2012, our mutual funds are classified as trading securities. Investments classified as trading securities are recorded at fair value based upon quoted market prices. Any material differences between the cost and fair value of trading securities is recognized as "Other income (expense)" in our Consolidated Statement of Operations. All of our other short-term investments are classified as available-for-sale and consequently are recorded in the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of tax.

## Interest Rate Risk

### Fixed Income Securities

Our investments in various interest earning securities carry a degree of market risk for changes in interest rates. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates could have a material adverse impact on interest income for our investment portfolio. We target to maintain a conservative investment policy, which focuses on the safety and preservation of our invested funds by limiting default risk, market risk, reinvestment risk, and the amount of credit exposure to any one issuer. The following table presents the hypothetical fair values of fixed income securities that would result from selected potential decreases and increases in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points (“BPS”), 100 BPS, and 150 BPS. The hypothetical fair values as of June 24, 2012 were as follows:

	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value as of June 24, 2012 0.00%	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
	(in thousands)						
Municipal Notes and Bonds . . . . .	\$ 327,596	\$ 325,920	\$ 324,244	\$ 322,567	\$ 320,891	\$ 319,215	\$ 317,539
US Treasury & Agencies . . . . .	140,968	139,794	138,620	137,446	136,272	135,098	133,924
Government-Sponsored Enterprises . . . . .	126,329	125,309	124,289	123,268	122,248	121,228	120,208
Foreign Government Bond . . . . .	6,582	6,507	6,433	6,358	6,283	6,209	6,134
Corporate Notes and Bonds . . . . .	781,039	776,993	772,947	768,901	764,856	760,811	756,765
Mortgage Backed Securities - Residential . . . . .	26,797	26,522	26,247	25,972	25,697	25,422	25,147
Mortgage Backed Securities - Commercial . . . . .	86,387	85,875	85,364	84,853	84,341	83,830	83,319
Total . . . . .	<u>\$1,495,698</u>	<u>\$1,486,920</u>	<u>\$1,478,144</u>	<u>\$1,469,365</u>	<u>\$1,460,588</u>	<u>\$1,451,813</u>	<u>\$1,443,036</u>

We mitigate default risk by investing in high credit quality securities and by 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.

### Long-Term Debt

As of June 24, 2012, we had \$1.6 billion in principal amount of fixed-rate long-term debt outstanding, with a fair value of \$1.7 billion. The fair value of our Notes is subject to interest rate risk, market risk and other factors due to the convertible feature. Generally, the fair value of Notes will increase as interest rates fall and/or our common stock price increases, and decrease as interest rates rise and/or our common stock price decreases. The interest and market value changes affect the fair value of our Notes but do not impact our financial position, cash flows, or results of operations due to the fixed nature of the debt obligations. We do not carry the Notes at fair value, but present the fair value of the principal amount of our Notes for disclosure purposes.

## Equity Price Risk

### Publicly Traded Securities

The values of our investments in publicly traded securities, including mutual funds related to our obligations under our deferred compensation plans, are subject to market price risk. The following table presents the hypothetical fair values of our publicly traded securities that would result from selected potential decreases and increases in the price of each security in the portfolio. Potential fluctuations in the price of each security in the portfolio of plus or minus 10%, 15%, or 25% were selected based on potential near-term changes in those security prices. The hypothetical fair values as of June 24, 2012 were as follows:

	Valuation of Securities Given an X% Decrease in Stock Price			Fair Value as of June 24, 2012	Valuation of Securities Given an X% Increase in Stock Price		
	(25%)	(15%)	(10%)		0.00%	10%	15%
				(in thousands)			
Mutual Funds . . . . .	\$13,316	\$15,091	\$15,979	\$17,754	\$19,529	\$20,417	\$22,193
Publicly traded equity securities . . . . .	\$ 4,435	\$ 5,026	\$ 5,322	\$ 5,913	\$ 6,504	\$ 6,800	\$ 7,391
Total . . . . .	<u>\$17,751</u>	<u>\$20,117</u>	<u>\$21,301</u>	<u>\$23,667</u>	<u>\$26,033</u>	<u>\$27,217</u>	<u>\$29,584</u>

### Foreign Currency Exchange (“FX”) Risk

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. The majority of our revenues and expenses are denominated in U.S. dollars except for certain revenues denominated in Japanese yen, certain revenues and expenses denominated in the Euro, certain spares and service contracts denominated in various currencies, and expenses related to our non-U.S. sales and support offices denominated in the related countries’ local currency. We currently enter into foreign currency forward contracts to minimize the short-term impact of foreign currency exchange rate fluctuations on Japanese yen-denominated revenue and monetary asset and liability exposure, Euro-denominated expenses and monetary assets and liabilities, as well as monetary assets and liabilities denominated in Swiss francs, Taiwanese dollars, and Great British pounds. We currently believe these are our primary exposures to currency rate fluctuation.

To protect against the reduction in value of forecasted Japanese yen-denominated revenue and Euro-denominated expenses, we enter into foreign currency forward contracts that generally expire within 12 months, and no later than 24 months. These foreign currency forward contracts are designated as cash flow hedges and are carried on our 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 and/or expense is recognized. We also enter into foreign currency forward contracts to hedge the gains and losses generated by the remeasurement of Japanese yen, Euros, Swiss franc, Taiwanese dollar, and Great British pound -denominated monetary assets and liabilities against the U.S. dollar. The change in fair value of these balance sheet hedge contracts is recorded into earnings as a component of other income (expense), net and offsets the change in fair value of the foreign currency denominated monetary assets and liabilities also recorded in other income (expense), net, assuming the hedge contract fully covers the intercompany and trade receivable balances.

The notional amount and unrealized gain of our outstanding forward contracts that are designated as cash flow hedges, as of June 24, 2012 are shown in the table below. This table also shows the change in fair value of these cash flow hedges assuming a hypothetical foreign currency exchange rate movement of plus-or-minus 10 percent and plus-or-minus 15 percent.

		<u>Notional Amount</u>	<u>Unrealized FX Gain / (Loss) June 24, 2012</u>	<u>Valuation of Fx Contracts Given an X% Increase (+)/Decrease(-) in Each Fx Rate</u>	
				<u>+ / - (10%)</u>	<u>+ / - (15%)</u>
(in \$ Millions)					
<b>Cash Flow Hedge</b>					
Sell .....	JPY	\$ 98.8	\$ 3.3	\$ 9.9	\$14.8
Buy .....	EUR	\$ 64.4	\$(3.5)	\$ 6.4	\$ 9.7
		\$163.2	\$(0.2)	\$16.3	\$24.5

The notional amount and unrealized loss of our outstanding foreign currency forward contracts that are designated as balance sheet hedges, as of June 24, 2012 are shown in the table below. This table also shows the change in fair value of these balance sheet hedges, assuming a hypothetical foreign currency exchange rate movement of plus-or-minus 10 percent and plus-or-minus 15 percent. These changes in fair values would be offset in other income (expense), net, by corresponding change in fair values of the foreign currency denominated monetary assets and liabilities, assuming the hedge contract fully covers the intercompany and trade receivable balances.

		<u>Notional Amount</u>	<u>Unrealized FX Gain / (Loss) June 24, 2012</u>	<u>Valuation of Fx Contracts Given an X% Increase (+)/Decrease(-) in Each Fx Rate</u>	
				<u>+ / - (10%)</u>	<u>+ / - (15%)</u>
(in \$ Millions)					
<b>Balance Sheet Hedge</b>					
Sell .....	JPY	\$ 42.6	\$0.0	\$ 4.3	\$ 6.4
Buy .....	CHF	\$232.9	\$0.0	\$23.3	\$34.9
Buy .....	TWD	\$ 86.9	\$0.0	\$ 8.7	\$13.0
Buy .....	EUR	\$ 11.8	\$0.0	\$ 1.2	\$ 1.8
Buy .....	GBP	\$ 4.5	\$0.0	\$ 0.4	\$ 0.7
		\$378.7	\$0.0	\$37.9	\$56.8

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

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

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

None.

**Item 9A. Controls and Procedures**

*Disclosure Controls and Procedures*

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of June 24, 2012, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer each concluded that our disclosure controls and procedures are effective at the reasonable assurance level.



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

#### *Changes in Internal Control Over Financial Reporting*

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

#### *Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate "internal control over financial reporting", as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management has used the framework set forth in the report entitled "Internal Control — Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Based on that evaluation, management has concluded that the Company's internal control over financial reporting was effective as of June 24, 2012 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the fiscal year in which the acquisition occurred. Management's evaluation of internal control over financial reporting excluded the internal control activities of Novellus. The acquired business represented approximately 1 percent of consolidated revenues for the year ended June 24, 2012 and approximately 25 percent of consolidated total assets and approximately 23 percent of consolidated net assets, excluding acquisition method fair value adjustments as of June 24, 2012.

Ernst & Young LLP, an independent registered public accounting firm, has audited the Company's internal control over financial reporting, as stated in their report, which is included in Part IV, Item 15 of this 2012 Form 10-K.

#### *Effectiveness of Controls*

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

#### **Item 9B. Other Information**

None.

### PART III

We have omitted from this 2012 Form 10-K 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 expected to be held on or about November 1, 2012 (the “Proxy Statement”), and certain information included in the Proxy Statement is incorporated into this report by reference. (However, the Reports of the Audit Committee and Compensation Committee in the Proxy Statement are expressly not incorporated by reference into this report.)

#### **Item 10. *Directors, Executive Officers, and Corporate Governance***

For information regarding our executive officers, see Part I, Item 1 of this 2012 Form 10-K under the caption “Executive Officers of the Company,” which information is incorporated into Part III by reference.

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.”

The information concerning our audit committee and audit committee financial experts required by this Item is incorporated by reference to our Proxy Statement under the heading “Corporate Governance.”

The information concerning compliance by our officers, directors and 10% shareholders with Section 16 of the Exchange Act required by this Item is incorporated by reference to our Proxy Statement under the heading “Section 16(a) Beneficial Ownership Reporting Compliance.”

The Company has adopted a Corporate 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 <http://investor.lamresearch.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 applicable legal requirements, we intend to make any required 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,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report,” “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans.”

#### **Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item is incorporated by reference to our Proxy Statement under the headings “Certain Relationships and Related Transactions” and “Corporate Governance”.

#### **Item 14. *Principal Accounting 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, Financial Statement Schedules**

(a) The following documents are filed as part of this Annual Report on Form 10-K

1. Index to Financial Statements

	<u>Page</u>
Consolidated Balance Sheets — June 24, 2012 and June 26, 2011 .....	54
Consolidated Statements of Operations — Years Ended June 24, 2012, June 26, 2011, and June 27, 2010 .....	55
Consolidated Statements of Cash Flows — Years Ended June 24, 2012, June 26, 2011, and June 27, 2010 .....	56
Consolidated Statements of Stockholders' Equity — Years Ended June 24, 2012, June 26, 2011, and June 27, 2010 .....	57
Notes to Consolidated Financial Statements .....	58
Reports of Independent Registered Public Accounting Firm .....	101
2. Index to Financial Statement Schedules	
Schedule II — Valuation and Qualifying Accounts .....	106

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.

(c) The list of Exhibits follows page 92 of this 2012 Form 10-K and is incorporated herein by this reference.

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

	June 24, 2012	June 26, 2011
<b>ASSETS</b>		
Cash and cash equivalents .....	\$ 1,564,752	\$ 1,492,132
Short-term investments .....	1,297,931	630,115
Accounts receivable, less allowance for doubtful accounts of \$5,248 as of June 24, 2012 and \$4,720 as of June 26, 2011 .....	765,818	590,568
Inventories .....	632,853	396,607
Deferred income taxes .....	47,782	78,435
Prepaid expenses and other current assets .....	105,973	85,408
Total current assets .....	4,415,109	3,273,265
Property and equipment, net .....	584,596	270,458
Restricted cash and investments .....	166,335	165,256
Deferred income taxes .....	—	3,892
Goodwill .....	1,446,303	169,182
Intangible assets, net .....	1,240,427	47,434
Other assets .....	151,882	124,380
Total assets .....	\$ 8,004,652	\$ 4,053,867
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Trade accounts payable .....	\$ 258,778	\$ 163,541
Accrued expenses and other current liabilities .....	492,178	358,756
Deferred profit .....	164,833	153,680
Current portion of long-term debt, convertible notes, and capital leases .....	511,139	4,782
Total current liabilities .....	1,426,928	680,759
Long-term debt, convertible notes, and capital leases .....	761,783	738,488
Income taxes payable .....	274,240	113,582
Other long-term liabilities .....	219,577	51,193
Total liabilities .....	2,682,528	1,584,022
Commitments and contingencies		
Senior convertible notes (Note 13) .....	190,343	—
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 - 186,656 shares at June 24, 2012 and 123,579 shares at June 26, 2011 .....	187	124
Additional paid-in capital .....	4,943,539	1,531,465
Treasury stock, at cost, 62,068 shares at June 24, 2012 and 40,995 shares at June 26, 2011 .....	(2,636,936)	(1,761,591)
Accumulated other comprehensive income (loss) .....	(33,818)	9,761
Retained earnings .....	2,858,809	2,690,086
Total stockholders' equity .....	5,131,781	2,469,845
Total liabilities and stockholders' equity .....	\$ 8,004,652	\$ 4,053,867

See Notes to Consolidated Financial Statements

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

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
Revenue .....	\$2,665,192	\$3,237,693	\$2,133,776
Cost of goods sold .....	1,581,982	1,740,461	1,166,219
Cost of goods sold - restructuring and impairments .....	(859)	—	3,438
Cost of goods sold - 409A expense .....	—	—	(5,816)
Total costs of goods sold .....	<u>1,581,123</u>	<u>1,740,461</u>	<u>1,163,841</u>
Gross margin .....	1,084,069	1,497,232	969,935
Research and development .....	444,559	373,293	320,859
Selling, general and administrative .....	400,052	308,075	240,942
Restructuring and impairments .....	1,725	11,579	21,314
409A expense .....	—	—	(38,590)
Total operating expenses .....	<u>846,336</u>	<u>692,947</u>	<u>544,525</u>
Operating income .....	237,733	804,285	425,410
Other income (expense), net:			
Interest income .....	12,141	9,890	8,682
Interest expense .....	(38,962)	(5,380)	(994)
Gains (losses) on deferred compensation plan related assets ..	(914)	5,682	(84)
Foreign exchange gains (losses) .....	(397)	(11,085)	(103)
Other, net .....	(5,183)	(2,516)	(2,770)
Income before income taxes .....	204,418	800,876	430,141
Income tax expense .....	35,695	77,128	83,472
Net income .....	<u>\$ 168,723</u>	<u>\$ 723,748</u>	<u>\$ 346,669</u>
Net income per share:			
Basic net income per share .....	<u>\$ 1.36</u>	<u>\$ 5.86</u>	<u>\$ 2.73</u>
Diluted net income per share .....	<u>\$ 1.35</u>	<u>\$ 5.79</u>	<u>\$ 2.71</u>
Number of shares used in per share calculations:			
Basic .....	<u>124,176</u>	<u>123,529</u>	<u>126,933</u>
Diluted .....	<u>125,233</u>	<u>125,019</u>	<u>128,126</u>

See Notes to Condensed Consolidated Financial Statements

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

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 168,723	\$ 723,748	\$ 346,669
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	100,825	74,759	71,401
Deferred income taxes	42,446	(10,721)	13,718
Restructuring charges, net	866	11,579	24,752
Impairment of investment	1,724	—	—
Equity-based compensation expense	81,559	53,012	50,463
Income tax benefit on equity-based compensation plans	1,510	28,775	10,635
Excess tax benefit on equity-based compensation plans	(2,686)	(23,290)	(10,234)
Amortization of convertible note discount	27,028	3,554	—
Other, net	10,877	(2,341)	3,190
Changes in operating asset and liability accounts:			
Accounts receivable, net of allowance	66,064	(89,716)	(246,653)
Inventories	73,987	(77,461)	(79,701)
Prepaid expenses and other assets	43,171	(25,282)	(23,647)
Trade accounts payable	12,145	42,320	71,600
Deferred profit	(9,236)	34,012	77,407
Accrued expenses and other liabilities	(119,975)	138,080	41,113
Net cash provided by operating activities	499,028	881,028	350,713
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures and intangible assets	(107,272)	(127,495)	(35,590)
Cash acquired in business acquisition	418,681	—	—
Purchases of available-for-sale securities	(883,429)	(564,485)	(192,755)
Sales and maturities of available-for-sale securities	841,440	210,962	114,768
Purchase of equity method investment	(10,740)	—	—
Purchase of other investments	—	(417)	(2,184)
Receipt of loan payments (loans made)	8,375	—	(800)
Proceeds from sale of assets	2,677	1,544	—
Transfer of restricted cash and investments	(6)	(22)	13,205
Net cash provided by (used for) investing activities	269,726	(479,913)	(103,356)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Principal payments on long-term debt and capital lease obligations	(5,265)	(4,530)	(21,040)
Net proceeds from issuance of long-term debt & convertible notes	—	882,831	336
Proceeds from sale of warrants	—	133,830	—
Purchase of convertible note hedge	—	(181,125)	—
Excess tax benefit on equity-based compensation plans	2,686	23,290	10,234
Treasury stock purchases	(772,663)	(211,316)	(93,032)
Net cash received in settlement of (paid in advance for) stock repurchase contracts	55,194	(149,589)	—
Reissuances of treasury stock	25,525	21,194	17,452
Proceeds from issuance of common stock	1,776	12,401	13,386
Net cash provided by (used for) financing activities	(692,747)	526,986	(72,664)
Effect of exchange rate changes on cash	(3,387)	18,264	(3,093)
Net increase in cash and cash equivalents	72,620	946,365	171,600
Cash and cash equivalents at beginning of year	1,492,132	545,767	374,167
Cash and cash equivalents at end of year	<u>\$1,564,752</u>	<u>\$1,492,132</u>	<u>\$ 545,767</u>
Schedule of noncash transactions			
Acquisition of leased equipment	\$ —	\$ —	\$ —
Accrued payables for stock repurchases	\$ 20,853	\$ —	\$ 13,500
Supplemental disclosures:			
Cash payments for interest	\$ 8,246	\$ 232	\$ 878
Cash payments for income taxes, net	\$ 29,113	\$ 70,774	\$ 16,261

See Notes to Consolidated Financial Statements

**LAM RESEARCH CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Retained Earnings	Total
Balance at June 28, 2009	126,532	127	1,377,231	(1,495,693)	(52,822)	1,624,246	1,453,089
Sale of common stock	1,619	1	13,386	—	—	—	13,387
Purchase of treasury stock	(2,982)	(3)	—	(106,531)	—	—	(106,534)
Income tax benefit on equity-based compensation plans	—	—	10,635	—	—	—	10,635
Reissuance of treasury stock	777	1	1,224	20,807	—	(4,579)	17,453
Equity-based compensation expense	—	—	50,463	—	—	—	50,463
Components of comprehensive income:							
Net income	—	—	—	—	—	346,669	346,669
Foreign currency translation adjustment	—	—	—	—	(13,868)	—	(13,868)
Unrealized loss on fair value of derivative financial instruments, net	—	—	—	—	(414)	—	(414)
Unrealized gain on financial instruments, net	—	—	—	—	2,062	—	2,062
Less: Reclassification adjustment for gains included in earnings	—	—	—	—	(645)	—	(645)
Change in retiree medical benefit	—	—	—	—	(4,162)	—	(4,162)
Total comprehensive income	—	—	—	—	—	—	329,642
Balance at June 27, 2010	125,946	\$126	\$1,452,939	\$(1,581,417)	\$(69,849)	\$1,966,336	\$1,768,135
Sale of common stock	1,744	2	12,404	—	—	—	12,406
Purchase of treasury stock	(4,790)	(5)	(149,589)	(197,840)	—	—	(347,434)
Income tax benefit on equity-based compensation plans	—	—	28,775	—	—	—	28,775
Reissuance of treasury stock	679	1	3,549	17,666	—	2	21,218
Equity-based compensation expense	—	—	53,012	—	—	—	53,012
Issuance of convertible notes	—	—	110,655	—	—	—	110,655
Sale of warrants	—	—	133,830	—	—	—	133,830
Purchase of convertible note hedge	—	—	(114,110)	—	—	—	(114,110)
Components of comprehensive income:							
Net income	—	—	—	—	—	723,748	723,748
Foreign currency translation adjustment	—	—	—	—	80,695	—	80,695
Unrealized gain on fair value of derivative financial instruments, net	—	—	—	—	6,994	—	6,994
Unrealized gain on financial instruments, net	—	—	—	—	621	—	621
Less: Reclassification adjustment for gains included in earnings	—	—	—	—	(7,514)	—	(7,514)
Change in retiree medical benefit	—	—	—	—	(1,186)	—	(1,186)
Total comprehensive income	—	—	—	—	—	—	803,358
Balance at June 26, 2011	123,579	\$124	\$1,531,465	\$(1,761,591)	\$ 9,761	\$2,690,086	\$2,469,845
Balance at June 26, 2011	123,579	\$124	\$1,531,465	\$(1,761,591)	\$ 9,761	\$2,690,086	\$2,469,845
Sale of common stock	1,513	1	1,767	—	—	—	1,768
Purchase of treasury stock	(21,946)	(22)	158,673	(896,971)	—	—	(738,320)
Income tax benefit on equity-based compensation plans	—	—	1,510	—	—	—	1,510
Reissuance of treasury stock	821	1	3,899	21,626	—	—	25,526
Equity-based compensation expense	—	—	81,559	—	—	—	81,559
Shares issued as acquisition consideration	82,689	83	3,026,905	—	—	—	3,026,988
Acquisition of convertible debt	—	—	137,783	—	—	—	137,783
Exercise of convertible note	—	—	(22)	—	—	—	(22)
Components of comprehensive income:							
Net income	—	—	—	—	—	168,723	168,723
Foreign currency translation adjustment	—	—	—	—	(37,332)	—	(37,332)
Unrealized gain on fair value of derivative financial instruments, net	—	—	—	—	6,959	—	6,959
Unrealized gain on financial instruments, net	—	—	—	—	270	—	270
Less: Reclassification adjustment for gains included in earnings	—	—	—	—	(9,075)	—	(9,075)
Change in retiree medical benefit	—	—	—	—	(4,401)	—	(4,401)
Total comprehensive income	—	—	—	—	—	—	125,144
Balance at June 24, 2012	186,656	187	4,943,539	(2,636,936)	(33,818)	2,858,809	\$5,131,781

See Notes to Consolidated Financial Statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 24, 2012**

**Note 1: Company and Industry Information**

The Company designs, manufactures, markets, refurbishes and services semiconductor processing equipment used in the fabrication of integrated circuits. Semiconductor wafers are subjected to a complex series of process and preparation steps that result in the simultaneous creation of many individual integrated circuits. The Company leverages its expertise in the areas of etch and single-wafer clean to develop processing solutions that typically benefit its customers through lower defect rates, enhanced yields, faster processing time, and reduced cost. With the acquisition of Novellus Systems, Inc. (“Novellus”), in June, 2012, the Company expanded into the areas of thin-film deposition and surface preparation, which, like single-wafer clean, are process steps often adjacent to etch.

The Company sells its products and services primarily to companies involved in the production of semiconductors in North America, Europe, Taiwan, Korea, Japan, and Asia Pacific.

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Today’s leading indicators of changes in customer investment patterns, such as electronics demand, memory pricing, and foundry utilization rates, may not be any more reliable than in prior years. Demand for the Company’s 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. For these and other reasons, the Company’s results of operations for fiscal years 2012, 2011, and 2010 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 (“GAAP”), 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 bases its estimates and assumptions on historical experience and on various other assumptions we believed to be applicable, and evaluated 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 revenue when persuasive evidence of an arrangement exists, delivery has occurred and title has passed or services have been rendered, the selling price is fixed or determinable, collection of the receivable is reasonably assured, and the Company has received customer acceptance, completed its system installation obligations, or is otherwise released from its installation or customer acceptance obligations. If 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. If the practices of a customer do not provide for a written acceptance or the terms of sale do not include a lapsing acceptance provision, the Company recognizes revenue when 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. Revenue from multiple-element arrangements is allocated among the separate elements based on their relative selling prices, provided the elements have value on a stand-alone basis. Our sales arrangements do not include a general right of return. The maximum revenue recognized on a delivered element is limited to the amount that is not contingent upon the delivery of additional items. Revenue related to sales of spare parts and system upgrade kits is generally recognized upon shipment. Revenue related to services is generally recognized upon completion of the services requested by a customer order. Revenue for extended maintenance service contracts with a fixed



payment amount is recognized on a straight-line basis over the term of the contract. When goods or services have been delivered to the customer but all conditions for revenue recognition have not been met, the Company defers revenue recognition until customer acceptance and records the deferred revenue and/or deferred costs of sales in deferred profit on the Consolidated Balance Sheet.

*Inventory Valuation:* Inventories are stated at the lower of cost or market using standard costs which generally 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. Transfer of title for shipments to Japanese customers generally occurs at time of customer acceptance.

Standard costs are reassessed as needed but annually at a minimum, and reflect acquisition costs. Acquisition costs are generally based on the most recent vendor contract prices for purchased parts, normalized assembly and test labor utilization levels, methods of manufacturing, and normalized overhead. 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 the Company's legal entities are eliminated from its 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. Estimates of market value include, but are not limited to, 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, the sale of 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. 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 factors such as tool reliability trends. All actual or estimated parts and labor costs incurred in subsequent periods are charged to those established reserves on a system-by-system basis.

Actual warranty expenses are accounted for 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 its estimates, the Company may recognize adjustments to provisions in the period in which those differences arise or are identified. 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 are recognized on a straight-line basis over the term of the contract. Related costs are recorded as incurred.

*Equity-based Compensation — Employee Stock Purchase Plan ("ESPP") and Employee Stock Plans:* The Company recognizes the fair value of equity-based awards as employee compensation expense. The fair value of the Company's restricted stock units was calculated based upon the fair market value of Company stock at the date of grant. The fair value of the Company's stock options and ESPP awards was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions, including

expected stock price volatility and the estimated life of each award. The fair value of equity-based awards is amortized over the vesting period of the award and the Company has elected to use the straight-line method of amortization.

*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, as well as the tax effect of carryforwards. 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 the 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 determined that it is more-likely-than-not that the deferred tax assets would be realized, then the previously provided valuation allowance would be reversed.

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

We recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties relating to these uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

In addition, the calculation of the Company's tax liabilities involves uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained on tax audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more-likely-than-not to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. The Company reevaluates these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period such determination is made.

*Goodwill and Intangible Assets:* Goodwill represents the amount by which the purchase price of a business combination exceeds the fair value of the net tangible and identifiable intangible assets acquired. The carrying value of goodwill is allocated to our reporting units. Goodwill and identifiable intangible assets with indefinite useful lives are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable and the carrying amount exceeds its fair value.

The Company reviews goodwill at least annually for impairment. Should certain events or indicators of impairment occur between annual impairment tests, the Company would perform an impairment test of goodwill at that date. In testing for a potential impairment of goodwill, the Company: (1) allocates goodwill to our

reporting units to which the acquired goodwill relates; (2) estimates the fair value of its reporting units; and (3) determines the carrying value (book value) of those reporting units. Prior to this allocation of the assets to the reporting units, the Company is required to assess long-lived assets for impairment. Furthermore, if the estimated fair value of a reporting unit is less than the carrying value, the Company must estimate the fair value of all identifiable assets and liabilities of that reporting unit, in a manner similar to a purchase price allocation for an acquired business. This can require independent valuations of certain internally generated and unrecognized intangible assets such as in-process research and development and developed technology. Only after this process is completed can the amount of goodwill impairment, if any, be determined. Beginning with its fiscal year 2012 goodwill impairment analysis, the Company adopted new accounting guidance that allowed it to first assess qualitative factors to determine whether it was necessary to perform a quantitative analysis. Under the revised guidance, an entity no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount.

The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. The Company determines the fair value of its reporting units by using a weighted combination of both a market and an income approach, as this combination is deemed to be the most indicative of our fair value in an orderly transaction between market participants.

Under the market approach, the Company utilizes information regarding the reporting unit as well as publicly available industry information to determine various financial multiples to value our reporting units. Under the income approach, the Company determines fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn.

In estimating the fair value of a reporting unit for the purposes of the Company's annual or periodic analyses, the Company makes estimates and judgments about the future cash flows of its reporting units, including estimated growth rates and assumptions about the economic environment. Although the Company's cash flow forecasts are based on assumptions that are consistent with the plans and estimates it is using to manage the underlying businesses, there is significant judgment involved in determining the cash flows attributable to a reporting unit. In addition, the Company makes certain judgments about allocating shared assets to the estimated balance sheets of our reporting units. The Company also considers its market capitalization and that of its competitors on the date it performs the analysis. Changes in judgment on these assumptions and estimates could result in a goodwill impairment charge.

As a result, several factors could result in impairment of a material amount of the Company's goodwill balance in future periods, including, but not limited to: (1) weakening of the global economy, weakness in the semiconductor equipment industry, or failure of the Company to reach its internal forecasts, which could impact the Company's ability to achieve its forecasted levels of cash flows and reduce the estimated discounted cash flow value of its reporting units; and (2) a decline in the Company's stock price and resulting market capitalization, if the Company determines that the decline is sustained and indicates a reduction in the fair value of the Company's reporting units below their carrying value. Further, the value assigned to intangible assets, other than goodwill, is based on estimates and judgments regarding expectations such as the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, the Company may be required to record an impairment charge to write down the asset to its realizable 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 24, 2012 and included 52 weeks. The fiscal years ended June 26, 2011 and June 27, 2010 also included 52 weeks. The Company's next fiscal year, ending on June 30, 2013 will include 53 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:* Investments purchased with an original final maturity of three months or less are considered to be cash equivalents. The Company also invests in certain mutual funds, which include equity and fixed income securities, related to its obligations under its deferred compensation plan, and such investments are classified as trading securities on the consolidated balance sheets. All of the Company's other 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. Investments classified as trading securities are recorded at fair value based upon quoted market prices. Differences between the cost and fair value of trading securities are recognized as "Other income (expense)" in the Consolidated Statement of Operations. The investments classified as available-for-sale are recorded at fair value based upon quoted market prices, and temporary difference between the cost and fair value of available-for-sale securities is presented as a separate component of accumulated other comprehensive income (loss). Unrealized losses on available-for-sale securities are charged against "Other income (expense)" when a decline in fair value is determined to be other-than-temporary. The Company considers several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (i) the extent to which the fair value is less than cost basis, (ii) the financial condition and near term prospects of the issuer, (iii) the length of time a security is in an unrealized loss position and (iv) the Company's ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The Company's ongoing consideration of these factors could result in additional impairment charges in the future, which could adversely affect its results of operation. An other-than-temporary impairment is triggered when there is an intent to sell the security, it is more-likely-than-not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Other-than-temporary impairments attributed to credit losses are recognized in the income statement. The specific identification method is used to determine the realized gains and losses on investments.

*Allowance for Doubtful Accounts:* The Company evaluates its allowance for doubtful accounts based on a combination of factors. In circumstances where specific invoices are deemed to be uncollectible, the Company provides a specific allowance for bad debt against the amount due to reduce the net recognized receivable to the amount it reasonably believes will be collected. The Company also provides allowances based on its write-off history.

*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 eight years. Furniture and fixtures are depreciated by the straight-line method over the estimated useful lives of the assets, generally five years. Software is amortized by the straight-line method over the estimated useful lives of the assets, generally three to five years. Buildings are depreciated by the straight-line method over the estimated useful lives of the assets, generally twenty-five to thirty-three years. Leasehold improvements are generally amortized by the straight-line method over the shorter of the life of the related asset or the term of the underlying lease. Amortization of capital leases is included with depreciation expense.

*Impairment of Long-Lived Assets (Excluding Goodwill and Intangibles):* 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 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.

*Derivative Financial Instruments:* In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. The Company's policy is to mitigate the effect of these exchange rate fluctuations on certain foreign currency denominated

business exposures. The Company has a policy that allows the use of derivative financial instruments to hedge foreign currency exchange rate fluctuations on forecasted revenue and expenses transactions denominated in Japanese yen and Euros, and net monetary assets or liabilities denominated in various foreign currencies. The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values. The Company does not use derivatives for trading or speculative purposes. The Company does not believe that it is exposed to more than a nominal amount of credit risk in its interest rate and foreign currency hedges, as counterparties are large, global and well-capitalized financial institutions. The Company's exposures are in liquid currencies (Japanese yen, Swiss francs, Euros, Taiwanese dollars, and Great British pounds), so there is minimal risk that appropriate derivatives to maintain the Company's hedging program would not be available in the future.

To hedge foreign currency risks, the Company uses foreign currency exchange forward contracts, where possible and prudent. 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 revenue and expenses to hedge as cash flow hedges. The Company combines these forecasts with historical trends to establish the portion of its expected volume to be hedged. The revenue and expenses are hedged and designated as cash flow hedges to protect the Company from exposures to fluctuations in foreign currency exchange rates. If the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the related hedge gains and losses on the cash flow hedge are reclassified from accumulated other comprehensive income (loss) to interest and other income (expense) on the consolidated statement of operations at that time.

*Guarantees:* The Company has certain operating leases that contain provisions whereby the properties subject to the operating leases may be remarketed at lease expiration. The Company has guaranteed to the lessor an amount approximating the lessor's investment in the property. The Company has recorded a liability for certain guaranteed residual values related to these specific operating lease agreements. Also, the Company's 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, 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.

*Foreign Currency Translation:* The Company's non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, primarily generate and expend cash in their local currency. Billings and receipts for their labor and services are primarily denominated in the local currency, and the workforce is paid in local currency. Accordingly, all balance sheet accounts of these local functional currency subsidiaries are translated at the fiscal period-end exchange rate, and income and expense accounts are translated using average rates in effect for the period, except for costs related to those balance sheet items that are translated using historical exchange rates. The resulting translation adjustments are recorded as cumulative translation adjustments and are a component of accumulated other comprehensive income (loss). Translation adjustments are recorded in other income (expense), net, where the U.S. dollar is the functional currency.

### **Note 3: Recent Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board ("FASB") issued new authoritative guidance that increases the prominence of items reported in other comprehensive income ("OCI") by eliminating the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance does not affect

the underlying accounting for components of OCI, but will change the presentation of the Company's financial statements. The Company will adopt this authoritative guidance retrospectively in the first quarter of its fiscal year 2013.

In September 2011, the FASB issued revised guidance intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount. The Company adopted this guidance during fiscal year 2012 and it did not have a significant impact on the results of the Company's annual goodwill impairment assessment.

#### **Note 4: Financial Instruments**

##### ***Fair Value***

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

A fair value hierarchy has been established that prioritizes the inputs to valuation techniques used to measure fair value. The level of an asset or liability in the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities with sufficient volume and frequency of transactions.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or model-derived valuations techniques for which all significant inputs are observable in the market or can be corroborated by, observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities and based on non-binding, broker-provided price quotes and may not have been corroborated by observable market data.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurement at June 24, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
<b>Assets</b>				
<b>Short-Term Investments</b>				
Money Market Funds	\$1,318,812	\$1,318,812	\$ —	\$—
Municipal Notes and Bonds	322,567	—	322,567	—
US Treasury and Agencies	137,446	130,624	6,822	—
Government-Sponsored Enterprises	123,268	—	123,268	—
Foreign Government Bonds	6,358	—	6,358	—
Corporate Notes and Bonds	768,901	164,885	604,016	—
Mortgage Backed Securities - Residential	25,972	—	25,972	—
Mortgage Backed Securities - Commercial	84,853	—	84,853	—
<b>Total Short-Term Investments</b>	<b>\$2,788,177</b>	<b>\$1,614,321</b>	<b>\$1,173,856</b>	<b>\$—</b>
<b>Equities</b>	5,913	5,913	—	—
<b>Mutual Funds</b>	17,754	17,754	—	—
<b>Derivatives Assets</b>	5,020	—	5,020	—
<b>Total</b>	<b>\$2,816,864</b>	<b>\$1,637,988</b>	<b>\$1,178,876</b>	<b>\$—</b>
<b>Liabilities</b>				
Derivative liabilities	\$ 4,529	\$ —	\$ 4,328	\$201

The amounts in the table above are reported in the consolidated balance sheet as of June 24, 2012 as follows:

	Total	(Level 1)	(Level 2)	(Level 3)
	(In thousands)			
<b>Reported As:</b>				
<b>Cash Equivalents</b>	\$1,325,361	\$1,318,812	\$ 6,549	\$—
<b>Short-Term Investments</b>	1,297,931	130,624	1,167,307	—
<b>Restricted Cash and Investments</b>	164,885	164,885	—	—
<b>Prepaid Expenses and Other Current</b>				
<b>Assets</b>	5,020	—	5,020	—
<b>Other Assets</b>	23,667	23,667	—	—
<b>Total</b>	<b>\$2,816,864</b>	<b>\$1,637,988</b>	<b>\$1,178,876</b>	<b>\$—</b>
<b>Accrued Expenses and Other Current</b>				
<b>Liabilities</b>	\$ 4,529	\$ —	\$ 4,328	\$201

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurement at June 26, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
<b>Assets</b>				
<b>Short-Term Investments</b>				
Money Market Funds .....	\$1,300,098	\$1,300,098	\$ —	\$—
Municipal Notes and Bonds .....	321,339	—	321,339	—
US Treasury and Agencies .....	8,496	8,496	—	—
Government-Sponsored Enterprises .....	19,868	—	19,868	—
Foreign Government Bonds .....	1,005	—	1,005	—
Corporate Notes and Bonds .....	382,432	164,885	217,547	—
Mortgage Backed Securities - Residential .....	2,633	—	2,633	—
Mortgage Backed Securities - Commercial .....	60,729	—	60,729	—
<b>Total Short-Term Investments</b>	<b>\$2,096,600</b>	<b>\$1,473,479</b>	<b>\$623,121</b>	<b>\$—</b>
<b>Equities</b> .....	7,443	7,443	—	—
<b>Mutual Funds</b> .....	19,467	19,467	—	—
<b>Derivatives Assets</b> .....	1,994	—	1,994	—
<b>Total</b> .....	<b>\$2,125,504</b>	<b>\$1,500,389</b>	<b>\$625,115</b>	<b>\$—</b>
<b>Liabilities</b>				
Derivative liabilities .....	\$ 1,924	\$ —	\$ 1,924	\$—

The amounts in the table above are reported in the consolidated balance sheet as of June 26, 2011 as follows:

	Total	(Level 1)	(Level 2)	(Level 3)
	(In thousands)			
<b>Reported As:</b>				
<b>Cash Equivalents</b> .....	\$1,301,600	\$1,300,098	\$ 1,502	\$—
<b>Short-Term Investments</b> .....	630,115	8,496	621,619	—
<b>Restricted Cash and Investments</b> .....	164,885	164,885	—	—
<b>Prepaid Expenses and Other Current</b>				
<b>Assets</b> .....	1,994	—	1,994	—
<b>Other Assets</b> .....	26,910	26,910	—	—
<b>Total</b> .....	<b>\$2,125,504</b>	<b>\$1,500,389</b>	<b>\$625,115</b>	<b>\$—</b>
<b>Accrued Expenses and Other Current</b>				
<b>Liabilities</b> .....	\$ 1,924	\$ —	\$ 1,924	\$—

The Company's primary financial instruments include its cash, cash equivalents, short-term investments, restricted cash and investments, long-term investments, accounts receivable, accounts payable, long-term debt and capital leases, and foreign currency related derivatives. The estimated fair value of cash, accounts receivable and accounts payable approximates their carrying value due to the short period of time to their maturities. The estimated fair values of capital lease obligations approximate their carrying value as the substantial majority of these obligations have interest rates that adjust to market rates on a periodic basis. Refer to Note 13 of the Notes to the Condensed Consolidated Financial Statements for additional information regarding the fair value of the Company's convertible notes.



## Investments

The acquisition of Novellus during the quarter ended June 24, 2012 resulted in increases to cash and cash equivalents, short-term investments, and restricted cash and investments of \$419 million, \$641 million, and \$1 million, respectively. The following tables summarize the Company's investments (in thousands):

	June 24, 2012				June 26, 2011			
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value
Cash	\$ 240,841	\$ —	\$ —	\$ 240,841	\$ 190,903	\$ —	\$ —	\$ 190,903
Fixed Income Money Market Funds	1,318,812	—	—	1,318,812	1,300,098	—	—	1,300,098
Municipal Notes and Bonds	321,001	1,574	(8)	322,567	319,913	1,510	(84)	321,339
US Treasury and Agencies Government-Sponsored Enterprises	137,516	43	(113)	137,446	8,462	34	—	8,496
Foreign Government Bonds	123,269	67	(68)	123,268	19,864	6	(2)	19,868
Corporate Notes and Bonds	6,315	43	—	6,358	1,004	1	—	1,005
Mortgage Backed Securities - Residential	767,847	1,443	(389)	768,901	380,992	1,498	(58)	382,432
Mortgage Backed Securities - Commercial	25,857	121	(6)	25,972	2,521	144	(32)	2,633
<b>Total Cash and Short-Term Investments</b>	<b>\$3,026,140</b>	<b>\$3,846</b>	<b>\$ (968)</b>	<b>\$3,029,018</b>	<b>\$2,284,396</b>	<b>\$3,470</b>	<b>\$ (363)</b>	<b>\$2,287,503</b>
Publicly Traded Equity Securities	\$ 9,320	\$ —	\$(3,407)	\$ 5,913	\$ 9,320	\$ —	\$(1,877)	\$ 7,443
Private Equity Securities	5,000	—	—	5,000	—	—	—	—
Mutual Funds	17,459	366	(71)	17,754	17,975	1,492	—	19,467
<b>Total Financial Instruments</b>	<b>\$3,057,919</b>	<b>\$4,212</b>	<b>\$(4,446)</b>	<b>\$3,057,685</b>	<b>\$2,311,691</b>	<b>\$4,962</b>	<b>\$(2,240)</b>	<b>\$2,314,413</b>
<b>As Reported</b>								
Cash and Cash Equivalents	\$1,564,752	\$ —	\$ —	\$1,564,752	\$1,492,132	\$ —	\$ —	\$1,492,132
Short-Term Investments	1,295,053	3,846	(968)	1,297,931	627,008	3,470	(363)	630,115
Restricted Cash and Investments	166,335	—	—	166,335	165,256	—	—	165,256
Other Assets	31,779	366	(3,478)	28,667	27,295	1,492	(1,877)	26,910
<b>Total</b>	<b>\$3,057,919</b>	<b>\$4,212</b>	<b>\$(4,446)</b>	<b>\$3,057,685</b>	<b>\$2,311,691</b>	<b>\$4,962</b>	<b>\$(2,240)</b>	<b>\$2,314,413</b>

The Company accounts for its investment portfolio at fair value. Realized gains (losses) for investment sales and pay-downs 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. Net realized gains (losses) on investments included other-than-temporary impairment charges of \$1.7 million, \$0 million and \$0.9 million in fiscal years 2012, 2011 and 2010, respectively. Additionally, gross realized gains/(losses) from sales of investments were approximately \$1.4 million and \$(1.0) million in fiscal year 2012, \$0.7 million and \$(0.3) million in fiscal year 2011, \$0.8 million and \$(0.2) million in fiscal year 2010, respectively.

The following is an analysis of the Company's fixed income securities in unrealized loss positions (in thousands):

	June 24, 2012					
	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
<b>Fixed Income Securities</b>						
Municipal Notes and Bonds . . .	\$ 28,970	\$ (8)	\$ —	\$—	\$ 28,970	\$ (8)
US Treasury and Agencies . . . .	\$ 72,260	\$(113)	—	—	72,260	(113)
Government-Sponsored						
Enterprises . . . . .	83,962	(68)	—	—	83,962	(68)
Corporate Notes and Bonds . . .	205,979	(377)	2,378	(12)	208,357	(389)
Mortgage Backed Securities -						
Residential . . . . .	4,969	(2)	175	(4)	5,144	(6)
Mortgage Backed Securities -						
Commercial . . . . .	43,445	(345)	1,596	(39)	45,041	(384)
<b>Total Fixed Income . . . . .</b>	<b><u>\$439,585</u></b>	<b><u>\$(913)</u></b>	<b><u>\$4,149</u></b>	<b><u>\$(55)</u></b>	<b><u>\$443,734</u></b>	<b><u>\$(968)</u></b>

The amortized cost and fair value of cash equivalents, short-term investments, and restricted cash and investments with contractual maturities are as follows:

	June 24, 2012		June 26, 2011	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
		(in thousands)		
Due in less than one year . . . . .	\$1,819,712	\$1,820,089	\$1,606,390	\$1,606,925
Due in more than one year . . . . .	965,587	968,088	487,103	489,675
	<u>\$2,785,299</u>	<u>\$2,788,177</u>	<u>\$2,093,493</u>	<u>\$2,096,600</u>

Management has the ability, if necessary, to liquidate any of its cash equivalents and short-term 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 nonetheless are classified as short-term on the accompanying Consolidated Balance Sheets.

***Derivative Instruments and Hedging***

The Company carries derivative financial instruments ("derivatives") on its Consolidated Balance Sheets at their fair values. The Company enters into foreign currency forward contracts with financial institutions with the primary objective of reducing volatility of earnings and cash flows related to foreign currency exchange rate fluctuations. The counterparties to these foreign currency forward contracts are large global financial institutions that the Company believes are creditworthy, and therefore, we do not consider the risk of counterparty nonperformance to be material.

***Cash Flow Hedges***

In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations on non-US dollar transactions or cash flows, primarily from Japanese yen-denominated revenues and Euro-denominated expenses. The Company's policy is to mitigate the foreign exchange risk arising from the fluctuations in the value of these non-US dollar denominated transactions or cash flows through a foreign currency cash flow hedging program, using foreign

currency forward contracts that generally expire within 12 months and no later than 24 months. These foreign currency forward contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in revenue in the same period the hedged revenue is recognized.

At inception and at each quarter end, hedges are tested prospectively and retrospectively for effectiveness using regression analysis. Changes in the fair value of foreign currency forward contracts due to changes in time value are excluded from the assessment of effectiveness and are recognized in revenue in the current period. The change in time value related to these contracts was not material for all reported periods. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to the derivative instrument and the hedged item. These criteria 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. There were no gains or losses during the twelve months ended June 24, 2012 or June 26, 2011 associated with ineffectiveness or forecasted transactions that failed to occur.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges must be tested to demonstrate an expectation of providing highly effective offsetting changes to future cash flows on hedged transactions. When derivative instruments are designated and qualify as effective cash flow hedges, the Company recognizes effective 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 excluded time value and hedge ineffectiveness recognized, the Company's results of operations are not subject to fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that the underlying hedged forecasted transactions will occur, the Company may not be able to account for its derivative instruments as cash flow hedges. If this were to occur, future changes in the fair values of the Company's derivative instruments would be recognized in earnings. Additionally, related amounts previously recorded in "Other comprehensive income" would be reclassified to income immediately. At June 24, 2012, the Company had losses of \$0.2 million accumulated in Other Comprehensive Income, which it expects to reclassify from Other Comprehensive Income into earnings over the next 12 months.

#### *Balance Sheet Hedges*

The Company also enters into foreign currency forward contracts to hedge fluctuations associated with foreign currency denominated monetary assets and liabilities, primarily intercompany receivables and payables. These foreign currency forward contracts are not designated for hedge accounting treatment. Therefore, the change in fair value of these derivatives is recorded as a component of other income (expense) and offsets the change in fair value of the foreign currency denominated assets and liabilities, recorded in other income (expense).

As of June 24, 2012, the Company had the following outstanding foreign currency forward contracts that were entered into under its cash flow and balance sheet hedge program:

	<u>Derivatives Designated as Hedging Instruments:</u>	<u>Derivatives Not Designated as Hedging Instruments:</u>
	<u>(in thousands)</u>	
<b>Foreign Currency Forward Contracts</b>		
Sell Japanese Yen . . . . .	\$102,418	\$ 73,641
Buy Japanese Yen . . . . .	—	30,280
Sell Swiss Francs . . . . .	—	4,210
Buy Swiss Francs . . . . .	—	237,259
Buy Great British Pounds . . . . .	—	4,452
Buy Taiwanese Dollars . . . . .	—	86,800
Sell Euro . . . . .	—	18,808
Buy Euro . . . . .	67,876	30,615
	<u>\$170,294</u>	<u>\$486,065</u>

The fair value of derivatives instruments in the Company's consolidated balance sheet as of June 24, 2012 was as follows:

Fair Value of Derivative Instruments			
Asset Derivatives		Liability Derivatives	
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(in thousands)			
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange forward contracts .....	Prepaid expense and other assets	Accrued liabilities	
	\$3,358		\$(3,403)
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange forward contracts .....	Prepaid expense and other assets	Accrued liabilities	
	1,662		(925)
<b>Total derivatives</b>	<b>\$5,020</b>		<b>\$(4,328)</b>

The fair value of derivatives instruments in the Company's consolidated balance sheet as of June 26, 2011 was as follows:

Fair Value of Derivative Instruments			
Asset Derivatives		Liability Derivatives	
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(in thousands)			
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange forward contracts .....	Prepaid expense and other assets	Accrued liabilities	
	\$1,881		\$(1,142)
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange forward contracts .....	Prepaid expense and other assets	Accrued liabilities	
	113		(782)
<b>Total derivatives</b>	<b>\$1,994</b>		<b>\$(1,924)</b>

The effect of derivative instruments designated as cash flow hedges on the Company's consolidated statements of operations was as follows:

	<b>Twelve Months Ended June 24, 2012</b>			
	Gain (Loss) Recognized (Effective Portion) (1)	Gain (Loss) Recognized (Effective Portion) (2)	Gain (Loss) Recognized (Ineffective Portion) (3)	Gain (Loss) Recognized (Excluded from Effectiveness Testing) (4)
<b>Derivatives Designated as Hedging Instruments:</b>	<b>(in thousands)</b>			
Foreign exchange forward contracts . . . .	\$(9,342)	\$(8,549)	\$—	\$796

	<b>Twelve Months Ended June 26, 2011</b>			
	Gain (Loss) Recognized (Effective Portion) (1)	Gain (Loss) Recognized (Effective Portion) (2)	Gain (Loss) Recognized (Ineffective Portion) (3)	Gain (Loss) Recognized (Excluded from Effectiveness Testing) (4)
<b>Derivatives Designated as Hedging Instruments:</b>	<b>(in thousands)</b>			
Foreign exchange forward contracts . . . .	\$(5,134)	\$(5,716)	\$—	\$516

- (1) Amount recognized in other comprehensive income (loss) (effective portion).
- (2) Amount of gain (loss) reclassified from accumulated other comprehensive income into income (loss) (effective portion) located in revenue.
- (3) Amount of gain (loss) recognized in income on derivative (ineffective portion) located in other income (expense), net.
- (4) Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing) located in other income (expense), net.

The effect of derivative instruments not designated as cash flow hedges on the Company's consolidated statement of operations was as follows:

	<b>Twelve Months Ended</b>	
	<b>June 24, 2012</b>	<b>June 26, 2011</b>
<b>Derivatives Not Designated as Hedging Instruments:</b>	Gain (Loss) Recognized (5)	Gain (Loss) Recognized (5)
	<b>(in thousands)</b>	
Foreign exchange forward contracts . . . . .	\$(39,629)	\$55,362

- (5) Amount of gain (loss) recognized in income located in other income (expense), net.

*Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short term investments, restricted cash and investments, trade accounts receivable, and derivative financial instruments used in hedging activities. Cash is placed on deposit in large global financial institutions. Such deposits may be in excess of insured limits. Management believes that the financial institutions that hold the Company's cash are creditworthy and, accordingly, minimal credit risk exists with respect to these balances.

The Company's available-for-sale securities must have a minimum rating of A2 / A at the time of purchase, as rated by two of the following three rating agencies: Moody's, Standard & Poor's (S&P), or Fitch. To ensure diversification and minimize concentration, the Company's policy limits the amount of credit exposure with any one financial institution or commercial issuer.

The Company is exposed to credit losses in the event of nonperformance by counterparties on the foreign currency forward contracts that are used to mitigate the effect of exchange rate fluctuations and on contracts related to structured share repurchase agreements. These counterparties are large global financial institutions and to date, no such counterparty has failed to meet its financial obligations to the Company.

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

As of June 24, 2012, three customers accounted for approximately 24%, 17%, and 11% of accounts receivable. As of June 26, 2011, three customers accounted for approximately 17%, 14%, and 10% of accounts receivable.

#### Note 5: Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipments to Japanese customers, to whom title does not transfer until customer acceptance, are classified as inventory and carried at cost until title transfers. The acquisition of Novellus during the quarter ended June 24, 2012 resulted in an increase of \$309 million in inventory on the date of acquisition. Inventories consist of the following:

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Raw materials . . . . .	\$342,283	\$212,979
Work-in-process . . . . .	118,566	69,013
Finished goods . . . . .	<u>172,004</u>	<u>114,615</u>
	<u>\$632,853</u>	<u>\$396,607</u>

#### Note 6: Property and Equipment

The acquisition of Novellus during the quarter ended June 24, 2012 resulted in an increase of \$289 million in property and equipment on the date of acquisition. Property and equipment, net, consist of the following:

	<u>June 24, 2012</u>	<u>June 26, 2011</u>
	(in thousands)	
Manufacturing, engineering and office equipment . . . .	\$ 468,739	\$ 345,684
Computer equipment and software . . . . .	104,919	95,770
Land . . . . .	65,228	14,758
Buildings . . . . .	231,536	65,429
Leasehold improvements . . . . .	54,327	55,833
Furniture and fixtures . . . . .	<u>19,770</u>	<u>15,258</u>
	944,519	592,732
Less: accumulated depreciation and amortization . . . . .	<u>(359,923)</u>	<u>(322,274)</u>
	<u>\$ 584,596</u>	<u>\$ 270,458</u>

Depreciation expense, including amortization of capital leases, during fiscal years 2012, 2011, and 2010 was \$74.0 million, \$54.0 million, \$47.8 million, respectively.

The Company's long lived assets held for use, including property, plant, and equipment and intangible assets, are measured at fair value when an impairment exists. Long lived assets held for use are assessed for impairment when events occur that indicate a potential impairment. The Company did not record impairments of long lived assets held for use for the years ended June 24, 2012 or June 26, 2011.

**Note 7: Accrued Expenses and Other Current Liabilities**

The acquisition of Novellus during the quarter ended June 24, 2012 resulted in an increase of \$197 million in accrued expenses and other current liabilities on the date of acquisition. Accrued expenses and other current liabilities consist of the following:

	<u>June 24, 2012</u>	<u>June 26, 2011</u>
	(in thousands)	
Accrued compensation .....	\$274,165	\$206,313
Warranty reserves .....	63,988	40,951
Income and other taxes payable .....	24,745	51,183
Other .....	129,280	60,309
	<u>\$492,178</u>	<u>\$358,756</u>

**Note 8: Other Income (Expense), Net**

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

	<u>Year Ended</u>		
	<u>June 24, 2012</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
	(in thousands)		
Interest income .....	\$ 12,141	\$ 9,890	\$ 8,682
Interest expense .....	(38,962)	(5,380)	(994)
Gains (losses) on deferred compensation plan related assets .....	(914)	5,682	(84)
Foreign exchange gains (losses) .....	(397)	(11,085)	(103)
Other, net .....	(5,183)	(2,516)	(2,770)
	<u>\$(33,315)</u>	<u>\$ (3,409)</u>	<u>\$ 4,731</u>

The increase in interest expense during fiscal year 2012 as compared with fiscal year 2011 and during fiscal year 2011 as compared with fiscal year 2010 was due to the issuance of the 2016 and 2018 Notes (as described in Note 13) during May 2011.

## Note 9: Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the treasury stock method, for dilutive stock options, RSUs, and convertible notes. The following table reconciles the numerators and denominators of the basic and diluted computations for net income per share.

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(in thousands, except per share data)		
Numerator:			
Net income .....	\$168,723	\$723,748	\$346,669
Denominator:			
Basic average shares outstanding .....	124,176	123,529	126,933
Effect of potential dilutive securities:			
Employee stock plans .....	910	1,490	1,193
Convertible notes .....	147		
Diluted average shares outstanding .....	125,233	125,019	128,126
Net income per share - basic .....	\$ 1.36	\$ 5.86	\$ 2.73
Net income per share - diluted .....	\$ 1.35	\$ 5.79	\$ 2.71

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

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(in thousands)		
Number of options and RSUs excluded .....	382	241	577

Diluted shares outstanding include only the effect of the 2041 Notes. Diluted shares outstanding do not include any effect resulting from warrants, assumed conversion of the notes, or note hedges associated with the Company's 2016 or 2018 Notes (as described in Note 13) as their impact would have been anti-dilutive.

## Note 10: Comprehensive Income (Loss)

The components of comprehensive income (loss), on an after-tax basis where applicable, are as follows:

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(in thousands)		
Net income .....	\$168,723	\$723,748	\$346,669
Foreign currency translation adjustment .....	(37,332)	80,695	(13,868)
Unrealized gain (loss) on fair value of derivative financial instruments, net .....	6,959	6,994	(414)
Unrealized gain on financial instruments, net .....	270	621	2,062
Reclassification adjustment for loss (gain) included in earnings .....	(9,075)	(7,514)	(645)
Postretirement benefit plan adjustment .....	(4,401)	(1,186)	(4,162)
Comprehensive income .....	\$125,144	\$803,358	\$329,642



The balance of accumulated other comprehensive income (loss), on an after-tax basis where applicable, is as follows:

	<u>June 24, 2012</u>	<u>June 26, 2011</u>
	(in thousands)	
Accumulated foreign currency translation adjustment . . . .	\$(22,481)	\$14,852
Accumulated unrealized gain (loss) on derivative financial instruments . . . . .	(212)	581
Accumulated unrealized gain on financial instruments . . . .	(308)	744
Postretirement benefit plan adjustment . . . . .	<u>(10,817)</u>	<u>(6,416)</u>
Accumulated other comprehensive income (loss) . . . . .	<u><u>\$(33,818)</u></u>	<u><u>\$ 9,761</u></u>

**Note 11: Equity-Based Compensation Plans**

The Company has adopted stock plans that provide for the grant to employees of equity-based awards, including stock options and restricted stock units (“RSUs”), of Lam Research Common Stock. In addition, these plans permit the grant of nonstatutory equity-based awards to consultants and outside directors. An option is a right to purchase the Company’s stock at a set price. An RSU award is an agreement to issue shares of the Company’s stock at the time of vesting. Pursuant to the plans, the equity-based award exercise price is determined by the Board of Directors or its designee, the plan administrator, but in no event will the exercise price for any option be less than the fair market value of the Company’s Common Stock on the date of grant. Equity-based awards granted under the plans vest over a period determined by the Board of Directors or the plan administrator, typically over a period of two years or less. The Company also has an ESPP that allows employees to purchase shares of its Common Stock through payroll deduction at a discounted price. A summary of stock plan transactions is as follows:

	<u>Options Outstanding</u>		<u>Restricted Stock Units Outstanding</u>	
	<u>Number of Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Number of Shares</u>	<u>Weighted- Average Fair Market Value at Grant</u>
June 28, 2009 . . . . .	1,590,316	\$22.10	2,520,063	\$30.32
Granted . . . . .	—	\$ —	1,383,941	\$34.71
Exercised . . . . .	(642,861)	\$20.91		
Canceled . . . . .	(62,030)	\$41.36	(197,549)	\$33.23
Vested restricted stock . . . . .			<u>(965,693)</u>	\$35.29
June 27, 2010 . . . . .	885,425	\$21.61	2,740,762	\$30.50
Granted . . . . .	—	\$ —	922,210	\$50.11
Exercised . . . . .	(572,182)	\$21.68		
Canceled . . . . .	(3,310)	\$20.35	(154,185)	\$32.20
Vested restricted stock . . . . .			<u>(1,177,447)</u>	\$27.03
June 26, 2011 . . . . .	309,933	\$21.50	2,331,340	\$39.90
Awards assumed in Novellus acquisition . . . . .	3,932,143	\$25.17	1,291,808	\$35.99
Granted . . . . .	—	\$ —	2,336,283	\$41.23
Exercised . . . . .	(74,615)	\$23.70		
Canceled . . . . .	(265,384)	\$21.71	(120,070)	\$40.91
Vested restricted stock . . . . .			<u>(1,507,883)</u>	\$35.47
June 24, 2012 . . . . .	<u><u>3,902,077</u></u>	\$25.14	<u><u>4,331,478</u></u>	\$41.01

Outstanding and exercisable options presented by price range at June 24, 2012 are as follows:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number of Options Outstanding</u>	<u>Weighted-Average Remaining Life (Years)</u>	<u>Weighted-Average Exercise Price</u>	<u>Number of Options Exercisable</u>	<u>Weighted-Average Exercise Price</u>
\$9.44-\$14.92 .....	523,057	6.32	\$11.43	172,195	\$11.83
\$15.16-\$19.68 .....	69,513	6.45	\$17.73	27,390	\$17.16
\$20.21-\$24.81 .....	1,333,197	4.68	\$22.04	972,358	\$22.27
\$25.08-\$29.68 .....	1,301,307	5.26	\$28.92	945,055	\$28.81
\$30.24-\$37.18 .....	675,003	2.78	\$35.36	570,605	\$35.98
\$9.44-\$37.18 .....	<u>3,902,077</u>	4.79	\$25.14	<u>2,687,603</u>	\$26.76

The 2007 Stock Incentive Plan provides for the grant of non-qualified equity-based awards to eligible employees, consultants and advisors, and non-employee directors of the Company and its subsidiaries. Additional shares are reserved for issuance pursuant to awards previously granted under the Company's 1997 Stock Incentive Plan and its 1999 Stock Option Plan (collectively with the 2007 Stock Incentive Plan, the "Existing Stock Plans"). As of June 24, 2012 there were a total of 3,397,079 shares subject to options and restricted stock units issued and outstanding under the Company's Existing Stock Plans. As of June 24, 2012, there were a total of 6,529,882 shares available for future issuance under the 2007 Stock Incentive Plan.

As part of the Novellus acquisition Lam assumed the Novellus Systems, Inc. 2011 Stock Incentive Plan (the "Novellus Plan"). As of June 24, 2012 there were a total of 4,836,476 shares subject to options and restricted stock units issued and outstanding under the Novellus Plan. As of June 24, 2012, there were a total of 9,370,943 shares available for future issuance under the Novellus Plan.

The ESPP allows employees to designate a portion of their base compensation to be deducted and 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 purchase period. Typically, each offering period lasts 12 months and comprises three interim purchase dates. Key provisions of the ESPP include (i) an annual increase in 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 repurchases for such purpose and (ii) authorization of 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 repurchases, 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 2012 the number of shares of Lam Research Common Stock reserved for issuance under the 1999 ESPP increased by 1.8 million. During fiscal years 2011 and 2010, the number of shares of Lam Research Common Stock reserved for issuance under the 1999 ESPP increased by 1.9 million each year.

During fiscal year 2012, a total of 819,011 shares of the Company's Common Stock were sold to employees under the 1999 ESPP. At June 24, 2012 10,646,603 shares were available for purchase under the 1999 ESPP.

The estimated fair value of the Company's stock-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis. The Company recognized or realized the following equity-based compensation expenses and benefits during the fiscal years noted:

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(in millions)		
Equity-based compensation expense . . . . .	\$81.6	\$53.0	\$50.5
Income tax benefit recognized in the Consolidated Statement of Operations related to equity-based compensation . . . . .	\$12.2	\$ 8.6	\$ 8.3
Tax benefit realized from the exercise and vesting of options and RSUs . . . . .	\$11.8	\$16.3	\$11.1

### Stock Options and Restricted Stock Units

#### *Stock Options*

In connection with the acquisition of Novellus, the Company assumed 3,932,143 stock options. The fair value of stock options assumed was estimated using the Black-Scholes option valuation model. This model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each award. The following assumptions were used to value these stock options:

Expected volatility . . . . .	38.04%
Risk-free interest rate . . . . .	0.55%
Expected term (years) . . . . .	3.89
Dividend yield . . . . .	0%

The year-end intrinsic value relating to stock options for fiscal years 2012, 2011, and 2010 is presented below:

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(millions)		
Intrinsic value - options outstanding . . . . .	\$49.9	\$ 6.7	\$16.5
Intrinsic value - options exercisable . . . . .	\$30.1	\$ 6.7	\$ 7.0
Intrinsic value - options exercised . . . . .	\$ 1.3	\$16.7	\$10.0

As of June 24, 2012, there was \$13.1 million of total unrecognized compensation cost related to unvested stock options granted and outstanding; that cost is expected to be recognized over a weighted average remaining vesting period of 1.7 years. Cash received from stock option exercises was \$1.8 million, \$12.4 million, and \$13.4 million during fiscal years 2012, 2011, and 2010, respectively.

#### *Restricted Stock Units*

In connection with the acquisition of Novellus, the Company assumed 1,291,808 restricted stock units. The fair value of the Company's restricted stock units, including those assumed upon acquisition of Novellus, was calculated based upon the fair market value of the Company's stock at the date of grant. As of June 24, 2012, there was \$117.3 million of total unrecognized compensation cost related to unvested restricted stock units granted; that cost is expected to be recognized over a weighted average remaining vesting period of 2.1 years.

## ESPP

ESPP rights were valued using the Black-Scholes model. During fiscal years 2012, 2011, and 2010 ESPP was valued assuming no expected dividends and the following weighted-average assumptions:

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
Expected life (years) . . . . .	0.72	0.68	0.78
Expected stock price volatility . . . . .	44.22%	42.25%	59.07%
Risk-free interest rate . . . . .	0.11%	0.61%	0.61%

As of June 24, 2012, there was \$1.7 million of total unrecognized compensation cost related to the ESPP that is expected to be recognized over a remaining vesting period of 2 months.

## Note 12: Retirement and Deferred Compensation Plans

### *Employee Savings and Retirement Plan*

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 1% to 75% of annual eligible earnings 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 earnings contributed. Employees participating in the 401(k) retirement savings plan are fully vested in the Company matching contributions, and investments are directed by participants. The Company made matching contributions of \$5.8 million, \$5.1 million, and \$4.3 million in fiscal years 2012, 2011, and 2010, respectively.

### *Deferred Compensation Arrangements*

The Company has an unfunded, non-qualified deferred compensation plan whereby certain executives may defer a portion of their compensation. Participants earn a return on their deferred compensation based on their allocation of their account balance among measurement funds. The Company controls the investment of these funds and the participants remain general creditors of the Company. Participants are able to elect the payment of benefits on a specified date at least three years after the opening of a deferral subaccount or upon retirement. Distributions are made in the form of lump sum or annual installments over a period of up to 20 years as elected by the participant. If no alternate election has been made, a lump sum payment will be made upon termination of a participant's employment with the Company. As of June 24, 2012 and June 26, 2011 the liability of the Company to the plan participants was \$79.0 million and \$62.5 million, respectively, which was recorded in accrued expenses and other current liabilities on the Consolidated Balance Sheets. As of June 24, 2012 and June 26, 2011 the Company had investments in the aggregate amount of \$83.2 million and \$64.7 million respectively that correlate to the deferred compensation obligations, which were recorded in other assets on the consolidated balance sheets.

### *Postretirement Healthcare Plan*

The Company maintains a postretirement healthcare plan for certain executive and director retirees. Coverage continues through the duration of the lifetime of the retiree or the retiree's spouse, whichever is longer. The benefit obligation was \$19.8 million and \$13.6 million as of June 24, 2012 and June 26, 2011, respectively.

### Note 13: Long Term Debt

The following table reflects the carrying value of the Company's convertible notes and other long-term debt as of June 24, 2012 and June 26, 2011:

	June 24, 2012	June 26, 2011
	<i>(in millions)</i>	
0.50% Notes due 2016 . . . . .	\$ 450.0	\$ 450.0
Less: Unamortized interest discount . . . . .	(60.3)	(74.4)
Net carrying amount of 0.50% Notes 2016 . . . . .	<u>389.7</u>	<u>375.6</u>
1.25% Notes due 2018 . . . . .	450.0	450.0
Less: Unamortized interest discount . . . . .	(90.4)	(103.2)
Net carrying amount of 1.25% Notes 2018 . . . . .	<u>359.6</u>	<u>346.8</u>
2.625% Notes due 2041 . . . . .	699.9	—
Less: Unamortized interest discount . . . . .	(190.3)	—
Net carrying amount of 2.625% Notes 2018 . . . . .	<u>509.6</u>	<u>—</u>
Other long-term debt . . . . .	—	3.9
Total long-term debt . . . . .	<u>\$1,258.9</u>	<u>\$ 726.3</u>

#### Convertible Senior Notes

In May 2011, the Company issued and sold \$450 million in aggregate principal amount of 0.5% Convertible Senior Notes due May 2016 (the "2016 Notes") at par. At the same time, the Company issued and sold \$450 million in aggregate principal amount of 1.25% Convertible Senior Notes due May 2018 (the "2018 Notes") at par. The 2016 and 2018 Notes may be converted, under certain circumstances, based on an initial conversion rate of 15.8687 shares of common stock per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$63.02 per share of common stock). The net proceeds to the Company from the sale of the 2016 and 2018 Notes were \$835.5 million. The Company pays cash interest at an annual rate of 0.5% and 1.25%, respectively, on the 2016 and 2018 Notes, payable semi-annually on May 15 and November 15 of each year, beginning November 15, 2011.

In June 2012, with the acquisition of Novellus Systems, Inc. (see Note 16), the Company assumed \$700 million in aggregate principal amount 2.625% Convertible Senior Notes due May 2041 (the "2041 Notes," and collectively with the 2016 and 2018 Notes, the "Notes"). The 2041 Notes may be converted, under certain circumstances, based on an initial conversion rate of 28.4781 shares of common stock per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$35.11 per share of common stock.). The Company pays cash interest at an annual rate of 2.625%, payable semi-annually on May 15 and November 15 of each year.

The Company separately accounts for the liability and equity components of the Notes. The initial debt components of the 2016, 2018, and 2041 Notes were valued at \$373.8 million, \$345.1 million, and \$509.5 million, respectively, based on the present value of the future cash flows using discount rates of 4.29%, 5.27%, and 4.28%, respectively, the Company's borrowing rate at the date of the issuance or assumption for similar debt instruments without the conversion feature. The carrying values of the equity components of the 2016 and 2018 Notes were \$76.2 million and \$104.9 million, respectively, as of June 24, 2012 and June 26, 2011. The carrying value of the equity components of the 2041 Notes was \$328.1 million as of June 24, 2012. The effective interest rates on the liability components of the 2016 Notes and 2018 Notes for the years ended June 24, 2012 and June 26, 2011 were 4.29% and 5.27%, respectively. The effective interest rate on the liability component of the 2041 Notes for the year ended June 24, 2012 was 4.28%. The following table presents the amount of interest cost

recognized relating to both the contractual interest coupon and amortization of the discount on the liability component of the Notes during the years ended June 24, 2012 and June 26, 2011.

	<u>June 24, 2012</u>	<u>June 26, 2011</u>
	<i>(in millions)</i>	<i>(in millions)</i>
Contractual interest coupon . . . . .	\$ 9.2	\$1.1
Amortization of interest discount . . . . .	27.0	3.6
Amortization of issuance costs . . . . .	<u>2.4</u>	<u>0.3</u>
Total interest cost recognized . . . . .	<u>\$38.6</u>	<u>\$5.0</u>

The remaining bond discount of the 2016 Notes of \$60.3 million as of June 24, 2012 will be amortized over their remaining life, which is approximately 3.9 years. The remaining bond discount of the 2018 Notes of \$90.4 million as of June 24, 2012 will be amortized over their remaining life, which is approximately 5.9 years. The remaining bond discount of the 2041 Notes of \$190.3 million as of June 24, 2012 will be amortized over their remaining life, which is approximately 28.9 years. As of June 24, 2012, the if-converted value of the 2016 and 2018 Notes did not exceed the aggregate principal amount. As of June 24, 2012, the if-converted value of the 2041 Notes exceeded the aggregate principal amount by \$2.0 million.

#### *2016 Notes*

The 2016 Notes may be converted at any time prior to the close of business on the business day immediately preceding February 15, 2016, at the option of the holder, only under the following circumstances: 1) during the five business-day period after any ten consecutive trading-day period (the “measurement period”) in which the trading price per \$1,000 principal amount of 2016 Notes for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the applicable conversion rate on each such trading day; 2) during any fiscal quarter commencing after the fiscal quarter ending September 25, 2011, if the last reported sale price of the Company’s common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter; or 3) upon the occurrence of specified corporate events. On and after February 15, 2016 until the close of business on the second scheduled trading day immediately preceding the maturity date of May 15, 2016, holders may convert their notes at any time, regardless of the foregoing circumstances.

Upon conversion, a holder will receive the conversion value of the 2016 Notes to be converted equal to the conversion rate multiplied by the volume weighted average price of the Company’s common stock during a specified period following the conversion date. The conversion value of each 2016 Note will be paid in: 1) cash equal to the principal amount of the note and 2) to the extent the conversion value exceeds the principal amount of the note, common stock (plus cash in lieu of any fractional shares of common stock). The conversion price will be subject to adjustment in some events but will not be adjusted for accrued interest. Upon a “fundamental change” at any time, as defined, the Company will in some cases increase the conversion rate for a holder who elects to convert its 2016 Notes in connection with such fundamental change. In addition, the holders may require the Company to repurchase for cash all or a portion of their notes upon a “designated event” at a price equal to 100% of the principal amount of the notes being repurchased plus accrued and unpaid interest, if any.

Concurrently with the issuance of the 2016 Notes, the Company purchased a convertible note hedge and sold warrants. The separate convertible note hedge and warrant transactions are collectively structured to reduce the potential future economic dilution associated with the conversion of the 2016 Notes and to increase the effective initial conversion price to \$71.34 per share. Each of these components is discussed separately below:

*Convertible Note Hedge.* Counterparties agreed to sell to the Company up to approximately 7.1 million shares of the Company's common stock, which is the number of shares initially issuable upon conversion of the 2016 Notes in full, at a price of \$63.02 per share. The convertible note hedge transaction will be settled in net shares and will terminate upon the earlier of the maturity date of the 2016 Notes or the first day none of the 2016 Notes remains outstanding due to conversion or otherwise. Settlement of the convertible note hedge in net shares, based on the number of shares issued upon conversion of the 2016 Notes, on the expiration date would result in the Company receiving net shares equivalent to the number of shares issuable by the Company upon conversion of the 2016 Notes. Should there be an early unwind of the convertible note hedge transaction, the number of net shares potentially received by the Company will depend upon 1) the then existing overall market conditions, 2) the Company's stock price, 3) the volatility of the Company's stock, and 4) the amount of time remaining before expiration of the convertible note hedge. The convertible note hedge transaction cost of \$76.2 million has been accounted for as an equity transaction. The Company initially recorded approximately \$28.2 million in stockholders' equity from the net deferred tax asset related to the convertible note hedge at inception of the transaction.

*Sold Warrants.* The Company received \$57.6 million from the same counterparties from the sale of warrants to purchase up to approximately 7.1 million shares of the Company's common stock at an exercise price of \$71.34 per share. The warrants expire on a series of dates between August 15, 2016 and October 21, 2016. At expiration, the Company may, at its option, elect to settle the warrants on a net share basis. As of June 24, 2012, the warrants had not been exercised and remained outstanding. The value of the warrants was initially recorded in equity and continues to be classified as equity.

#### *2018 Notes*

The 2018 Notes may be converted at any time prior to the close of business on the business day immediately preceding February 15, 2018, at the option of the holder only under the following circumstances: 1) during the five business-day period after any ten consecutive trading-day period (the "measurement period") in which the trading price per \$1,000 principal amount of 2018 Notes for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day; 2) during any fiscal quarter commencing after the fiscal quarter ending September 25, 2011, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter; or 3) upon the occurrence of specified corporate events. On and after February 15, 2018 until the close of business on the second scheduled trading day immediately preceding the maturity date of May 15, 2018, holders may convert their notes at any time, regardless of the foregoing circumstances.

Upon conversion, a holder will receive the conversion value of the 2018 Notes to be converted equal to the conversion rate multiplied by the volume weighted average price of the Company's common stock during a specified period following the conversion date. The conversion value of each 2018 Notes will be paid in: 1) cash equal to the principal amount of the note and 2) to the extent the conversion value exceeds the principal amount of the note, common stock (plus cash in lieu of any fractional shares of common stock). The conversion price will be subject to adjustment in some events but will not be adjusted for accrued interest. Upon a "fundamental change" at any time, as defined, the Company will in some cases increase the conversion rate for a holder who elects to convert its 2018 Notes in connection with such fundamental change. In addition, the holders may require the Company to repurchase for cash all or a portion of their notes upon a "designated event" at a price equal to 100% of the principal amount of the notes being repurchased plus accrued and unpaid interest, if any.

Concurrently with the issuance of the 2018 Notes, the Company purchased a convertible note hedge and sold warrants. The separate convertible note hedge and warrant transactions are collectively structured to reduce the potential future economic dilution associated with the conversion of the 2018 Notes and to increase the effective initial conversion price to \$76.10 per share. Each of these components is discussed separately below:

*Convertible Note Hedge.* Counterparties agreed to sell to the Company up to approximately 7.1 million shares of the Company's common stock, which is the number of shares initially issuable upon conversion of the 2018 Notes in full, at a price of \$63.02 per share. The convertible note hedge transaction will be settled in net shares and will terminate upon the earlier of the maturity date of the 2018 Notes or the first day none of the 2018 Notes remains outstanding due to conversion or otherwise. Settlement of the convertible note hedge in net shares, based on the number of shares issued upon conversion of the 2018 Notes, on the expiration date would result in the Company receiving net shares equivalent to the number of shares issuable by the Company upon conversion of the 2018 Notes. Should there be an early unwind of the convertible note hedge transaction, the number of net shares potentially received by the Company will depend upon 1) the then existing overall market conditions, 2) the Company's stock price, 3) the volatility of the Company's stock, and 4) the amount of time remaining before expiration of the convertible note hedge. The convertible note hedge transaction cost of \$104.9 million has been accounted for as an equity transaction. The Company initially recorded approximately \$38.8 million in stockholders' equity from the net deferred tax asset related to the convertible note hedge at inception of the transaction.

*Sold Warrants .* The Company received \$76.3 million from the same counterparties from the sale of warrants to purchase up to approximately 7.1 million shares of the Company's common stock at an exercise price of \$76.10 per share. The warrants expire on a series of dates between August 15, 2018 and October 23, 2018. At expiration, the Company may, at its option, elect to settle the warrants on a net share basis. As of June 24, 2012, the warrants had not been exercised and remained outstanding. The value of the warrants was initially recorded in equity and continues to be classified as equity.

#### *2041 Notes*

The 2041 Notes may be converted at any time prior to the close of business on the business day immediately preceding February 15, 2041, at the option of the holder only under the following circumstances: 1) during the five business-day period after any ten consecutive trading-day period (the "measurement period") in which the trading price per \$1,000 principal amount of 2041 notes for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day; 2) during any fiscal quarter, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter; or 3) upon the occurrence of specified corporate events. On and after February 15, 2041 until the close of business on the third scheduled trading day immediately preceding the maturity date of May 15, 2041, holders may convert their notes at any time, regardless of the foregoing circumstances.

In connection with the acquisition of Novellus, the 2041 Notes may be converted into the Company's common stock at any time from and after the later of (1) the date that was 30 scheduled trading days immediately prior to the anticipated closing date of the merger and (2) the date on which we delivered to the note holders notice of the merger, until 35 business days after the actual closing date of the merger, or July 24, 2012. Accordingly, the carrying amount of the 2041 Notes has been classified in current liabilities in our balance sheet. The excess of the amount of cash payable, if converted, over the carrying amount of the 2041 Notes has been reclassified from permanent to temporary equity. When the conversion period closed, July 24, 2012, all 2041 Notes not converted were reclassified back to noncurrent liabilities and the temporary equity was reclassified to permanent equity. During the period ending June 24, 2012, 65 of the 2041 Notes, with a total par value of \$65,000, were converted at the note holders' option. In conjunction with the conversion, 137 shares of common stock were issued.



Upon conversion, a holder will receive the conversion value of the 2041 Notes to be converted equal to the conversion rate multiplied by the volume weighted average price of the Company's common stock during a specified period following the conversion date. The conversion value of each 2041 Note will be paid in: 1) cash equal to the principal amount of the note and 2) to the extent the conversion value exceeds the principal amount of the note, common stock (plus cash in lieu of any fractional shares of common stock). The conversion price will be subject to adjustment in some events but will not be adjusted for accrued interest. Upon a "fundamental change" at any time, as defined, the Company will in some cases increase the conversion rate for a holder who elects to convert its 2041 Notes in connection with such fundamental change. In addition, the holders may require the Company to repurchase for cash all or a portion of their notes upon a "designated event" at a price equal to 100% of the principal amount of the notes being repurchased plus accrued and unpaid interest, if any.

On or after May 21, 2021, we may redeem all or part of the 2041 Notes for the principal plus any accrued and unpaid interest if the closing price of our common stock has been at least 150% of the conversion price then in effect for at least 20 trading days during any period of 30 consecutive trading days prior to the date on which we provide notice of redemption.

The 2041 Notes also have a contingent interest payment provision that may require us to pay additional interest based on certain thresholds, beginning with the semi-annual interest payment commencing on May 15, 2021, and upon the occurrence of certain events, as outlined in the indenture governing the 2041 Notes. The maximum amount of the contingent interest will accrue at a rate of 2.1% per annum, excluding any potential impact from dividends deemed payable to holders of the 2041 Notes. The contingent interest payment provision has been identified as an embedded derivative, to be accounted for separately, and is recorded at fair value at the end of each reporting period in Other non-current liabilities, with any gains and losses recorded in Interest expense, within the Condensed Consolidated Statements of Income.

#### ***Fair Value of Notes***

As of June 24, 2012, the face values of the 2016 Notes, 2018 Notes, and 2041 Notes were \$450.0 million, \$450.0 million, and \$699.9 million, respectively. As of June 24, 2012, the fair values of the 2016 Notes, 2018 Notes, and 2041 Notes, which includes the debt and equity components, were approximately \$432.4 million, \$445.6 million, and \$863.9 million respectively, based on quoted market prices (level 1 inputs within the fair value hierarchy).

#### ***Contractual Obligations***

The Company's contractual cash obligations relating to its convertible notes and other long-term debt as of June 24, 2012 were as follows:

	<b>Long-term Debt</b>
	<i>(in thousands)</i>
Payments due by period:	
One year . . . . .	\$ —
Two years . . . . .	—
Three years . . . . .	—
Four years . . . . .	450,000
Five years . . . . .	—
Over 5 years* . . . . .	<u>1,149,935</u>
Total . . . . .	1,599,935
Current portion of long-term debt . . . . .	<u>699,935</u>
Long-term debt . . . . .	<u>\$ 900,000</u>

\* As noted above, the conversion period for the 2041 Notes closed on July 24, 2012 and no further conversions occurred. As such, the payment of principal on the 2041 Notes has been included in the over 5 year category of this table.

## Note 14: Commitments

The Company has certain obligations to make future payments under various contracts, some of these are recorded on its balance sheet and some are not. Obligations that are recorded on the Company's balance sheet include the Company's capital lease obligations. Obligations that are not recorded on the Company's balance sheet include contractual relationships for operating leases, purchase obligations, and certain guarantees. The Company's commitments relating to capital leases and off-balance sheet agreements are included in the tables below. These amounts exclude \$274.2 million of liabilities related to uncertain tax benefits because the Company is unable to reasonably estimate the ultimate amount or time of settlement. See Note 15, of Notes to Consolidated Financial Statements for further discussion.

### *Capital Leases*

Capital leases reflect building and office equipment leases. The Company's contractual cash obligations relating to its existing capital leases, including interest, as of June 24, 2012 were as follows:

	<u>Capital Leases</u> (in thousands)
Payments due by period:	
One year . . . . .	\$ 1,877
Two years . . . . .	1,596
Three years . . . . .	1,585
Four years . . . . .	2,138
Five years . . . . .	7,940
Over 5 years . . . . .	—
Total . . . . .	<u>15,136</u>
Interest on capital leases . . . . .	<u>1,077</u>
Current portion of capital leases . . . . .	<u>1,547</u>
Long-term portion of capital leases . . . . .	<u>\$12,512</u>

### *Operating Leases and Related Guarantees*

The Company leases the majority of its administrative, R&D and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases. Certain of the Company's facility leases for buildings located at its Fremont, California headquarters and certain other facility leases provide the Company with options to extend the leases for additional periods or to purchase the facilities. Certain of the Company's facility leases provide for periodic rent increases based on the general rate of inflation. The Company's rental expense for facilities occupied during fiscal years 2012, 2011, and 2010 was approximately \$11 million, \$9 million, and \$6 million, respectively.

On December 18, 2007, the Company entered into two operating leases regarding certain improved properties in Livermore, California. These leases were amended on April 3, 2008 and July 9, 2008 (as so amended, the "Livermore Leases"). On December 21, 2007, the Company entered into a series of four amended and restated operating leases (the "New Fremont Leases," and collectively with the Livermore Leases, the "Operating Leases") with regard to certain improved properties at the Company's headquarters in Fremont, California.

The Operating Leases have a term of approximately seven years ending on the first business day in January 2015. The Company may, at its discretion and with 30 days' notice, elect to purchase the property that is the subject of the Operating Lease for an amount approximating the sum required to pay the amount of the lessor's investment in the property and any accrued but unpaid rent.

The Company is required, pursuant to the terms of the Operating Leases, to maintain collateral in an aggregate of approximately \$164.9 million in separate interest-bearing accounts as security for the Company's obligations under the Operating Leases. This amount is recorded as restricted cash in the Company's Consolidated Balance Sheet as of as of June 24, 2012.

When the terms of the Operating Leases expire, the property subject to that Operating Lease may be remarketed. The Company has guaranteed to the lessor that each property will have a certain minimum residual value. The aggregate guarantee made by the Company under the Operating Leases is generally no more than approximately \$141.7 million; however, under certain default circumstances, the guarantee with regard to an Operating Lease may be 100% of the lessor's aggregate investment in the applicable property, which in no case will exceed \$164.9 million, in the aggregate.

The Company recognized at lease inception \$0.6 million in estimated liabilities related to the Operating Leases, which represents the fair value guarantee premium that would be required had the guarantee been issued in a standalone transaction. These liabilities are recorded in other long-term liabilities with the offsetting entry recorded as prepaid rent in other assets. The balances in prepaid rent and the guarantee liability are amortized to the statement of operations on a straight line basis over the life of the leases. If it becomes probable that the Company will be required to make a payment under the residual guarantee, the Company will increase its liability with a corresponding increase to prepaid rent and amortize the increased prepaid rent over the remaining lease term with no corresponding reduction in the liability. As of June 24, 2012, the unamortized portion of the fair value of the residual value guarantees remaining in other long-term liabilities and prepaid rent was \$0.2 million.

During fiscal years 2011 and 2010, the Company recognized restructuring charges of \$13.7 million and \$13.0 million, respectively, related to the reassessment of the residual value guarantee for such lease. Accordingly, an amount of \$26.7 million has been recorded in other long-term liabilities as of June 24, 2012.

The Company's contractual cash obligations with respect to operating leases, excluding the residual value guarantees discussed above, as of June 24, 2012 were as follows:

	<b>Operating Leases</b>
	<b>(in thousands)</b>
Payments due by period:	
One year . . . . .	\$ 15,620
Two years . . . . .	12,537
Three years . . . . .	9,960
Four years . . . . .	5,886
Five years . . . . .	4,777
Over 5 years . . . . .	1,423
Less: Sublease Income . . . . .	<u>(12,822)</u>
Total . . . . .	<u>\$ 37,381</u>

*Other Guarantees*

The Company has issued certain indemnifications to its lessors for taxes and general liability under some of its agreements. The Company has entered into certain insurance contracts that may limit its exposure to such indemnifications. As of June 24, 2012, the Company had not recorded any liability on its Consolidated Financial Statements in connection with these indemnifications, as it does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

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

The Company provides guarantees and standby letters of credit to certain parties as required for certain transactions initiated during the ordinary course of business. As of June 24, 2012, the maximum potential amount of future payments that we could be required to make under these arrangements and letters of credit was \$19.9 million. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid.

*Purchase Obligations*

Purchase obligations consist of significant contractual 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 activities, including elements of its manufacturing, warehousing, logistics, facilities maintenance, certain information technology functions, and certain transactional general and administrative functions. The contractual cash obligations and commitments table presented below contains the Company's minimum obligations at June 24, 2012 under these arrangements and others. For obligations with cancellation provisions, the amounts included in the following table were limited to the non-cancelable portion of the agreement terms or the minimum cancellation fee. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to these obligations, certain of these agreements include early termination provisions and/or cancellation penalties that could increase or decrease amounts actually paid.

The Company's commitments related to these agreements as of June 24, 2012 are as follows:

	<b>Purchase Obligations</b>
	<b>(in thousands)</b>
Payments due by period:	
One year . . . . .	\$125,403
Two years . . . . .	7,567
Three years . . . . .	5,470
Four years . . . . .	2,974
Five years . . . . .	724
Over 5 years . . . . .	—
Total . . . . .	<u>\$142,138</u>

*Warranties*

The Company provides standard warranties on its systems. The liability amount is based on actual historical warranty spending activity by type of system, customer, and geographic region, modified for any known differences such as the impact of system reliability improvements.

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

	Year Ended	
	June 24, 2012	June 26, 2011
	(in thousands)	
Balance at beginning of period . . . . .	\$ 40,951	\$ 31,756
Warranties issued during the period . . . . .	45,095	51,721
Warranties assumed in Novellus acquisition . . . . .	38,967	—
Settlements made during the period . . . . .	(58,710)	(39,915)
Expirations and change in liability for pre-existing warranties during the period . . . . .	3,793	(3,299)
Changes in foreign currency exchange rates . . . . .	65	688
Balance at end of period . . . . .	\$ 70,161	\$ 40,951
Less: long-term portion . . . . .	(6,173)	—
Accrued warranty, current . . . . .	<u>\$ 63,988</u>	<u>\$ 40,951</u>

**Note 15: Income Taxes**

The components of income (loss) before income taxes are as follows:

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(in thousands)		
United States . . . . .	\$ (6,950)	\$159,250	\$140,309
Foreign . . . . .	211,368	641,626	289,832
	<u>\$204,418</u>	<u>\$800,876</u>	<u>\$430,141</u>

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

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(in thousands)		
Federal:			
Current .....	\$ 5,038	\$ 55,119	\$38,221
Deferred .....	(1,033)	(25,143)	11,438
	<u>\$ 4,005</u>	<u>\$ 29,976</u>	<u>\$49,659</u>
State:			
Current .....	\$ 1,297	\$ 3,159	\$ 6,126
Deferred .....	336	26,589	5,009
	<u>\$ 1,633</u>	<u>\$ 29,748</u>	<u>\$11,135</u>
Foreign:			
Current .....	\$33,871	\$ 22,556	\$22,813
Deferred .....	(3,814)	(5,152)	(135)
	<u>\$30,057</u>	<u>\$ 17,404</u>	<u>\$22,678</u>
Total Provision for Income Taxes .....	<u>\$35,695</u>	<u>\$ 77,128</u>	<u>\$83,472</u>

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

	June 24, 2012	June 26, 2011
	(in thousands)	
Deferred tax assets:		
Tax carryforwards .....	\$ 114,974	\$ 33,152
Allowances and reserves .....	102,041	85,751
Equity-based compensation .....	24,960	8,019
Inventory valuation differences .....	8,233	8,861
Other .....	3,118	1,720
Capitalized R&D expenses .....	388	2,722
Intangible Assets .....	—	20,397
Gross deferred tax assets .....	253,714	160,622
Valuation allowance .....	(55,213)	(46,201)
Net deferred tax assets .....	198,501	114,421
Deferred tax liabilities:		
Intangible Assets .....	(117,312)	—
Convertible debt .....	(81,608)	—
Temporary differences for capital assets .....	(71,439)	(36,519)
Amortization of goodwill .....	(8,180)	(7,768)
Other .....	(7,060)	(802)
Gross deferred tax liabilities .....	(285,599)	(45,089)
Net deferred tax assets .....	<u>\$ (87,098)</u>	<u>\$ 69,332</u>

The change in the gross deferred tax assets, gross deferred tax liabilities and valuation allowance between fiscal year 2012 and 2011 is primarily attributable to the Company's acquisition of Novellus. Realization of the Company's net deferred tax assets is based upon the weighting 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 deferred tax assets will be realized with the exception of \$55.2 million related to California and certain foreign deferred tax assets. \$22.5 million of the valuation allowance relates to tax assets established in purchase price accounting and is allocated to goodwill.

The provisions related to the tax accounting for stock-based compensation prohibit the recognition of a deferred tax asset for an excess benefit that has not yet been realized. As a result, the Company will only recognize an excess benefit from stock-based compensation in additional paid-in-capital if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized. In addition, the Company continued to elect to account for the indirect benefits of stock-based compensation such as the R&D tax credit through the consolidated statement of operations.

At June 24, 2012, the Company had federal net operating loss carryforwards of approximately \$186.2 million. These losses will begin to expire in the year 2018, and are subject to limitations on their utilization.

As of June 24, 2012, the Company had state net operating loss carryforward of approximately \$ 60.2 million. If not utilized, the net operating loss carryforwards will begin to expire in the year 2013, and are subject to limitations on their utilization.

At June 24, 2012, the Company had federal tax credit carryforwards of approximately \$47.6 million, of which \$44.9 million will begin to expire in fiscal year 2027. The remaining balance of \$2.8 million of credits may be carried forward indefinitely. The tax benefits relating to approximately \$8.1 million of the federal tax credit carryforwards will be credited to additional paid-in-capital when recognized.

At June 24, 2012, the Company had state tax credit carryforwards of approximately \$159.0 million. Substantially all tax credits may be carried forward indefinitely. The tax benefits relating to approximately \$36.7 million of the state tax credit carryforwards will be credited to additional paid-in-capital when recognized.

At June 24, 2012, the Company had foreign net operating loss carryforwards of approximately \$66.4 million, of which approximately \$34.0 million may be carried forward indefinitely and \$32.4 million will begin to expire in fiscal year 2014.

A reconciliation of income tax expense provided at the federal statutory rate (35% in fiscal years 2012, 2011 and 2010) to actual income expense is as follows:

	Year Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(in thousands)		
Income tax expense computed at federal statutory rate	\$ 71,546	\$ 280,306	\$150,549
State income taxes, net of federal tax benefit	(4,895)	9,322	4,754
Foreign income taxed at different rates	(51,425)	(217,982)	(84,081)
Tax credits	(5,791)	(16,503)	(4,410)
State valuation allowance, net of federal tax benefit	5,862	10,078	4,627
Equity-based compensation	14,123	12,244	11,847
Acquisition costs	5,683	—	—
Other, net	592	(337)	186
	<u>\$ 35,695</u>	<u>\$ 77,128</u>	<u>\$ 83,472</u>

The Company's effective tax rate on income before tax for the year was 17.5% which was lower than the United States federal statutory rate of 35% due to geographical mix of income between higher and lower foreign tax jurisdictions and recognition of the U.S. federal research tax credit.

Effective from fiscal year 2003 through June 2013, the Company has a tax holiday in Switzerland for one of its foreign subsidiaries, which is conditional upon the Company meeting certain employment and investment thresholds. The impact of the tax holiday decreased income taxes by approximately \$22.3 million, \$119.5 million, and \$45.9 million for fiscal years 2012, 2011, and 2010, respectively. The benefit of the tax holiday on diluted earnings per share was approximately \$0.18 in fiscal year 2012, \$0.96 in fiscal year 2011, and \$0.36 in fiscal year 2010.

Effective from January 2007 through December 2014, Novellus has a tax holiday in Singapore for one of its foreign subsidiaries, which is conditional upon Novellus meeting certain revenue, business spending and employment thresholds. The benefit of the Singapore tax holiday for the Company's fiscal year 2012 results is immaterial.

Unremitted earnings of the Company's foreign subsidiaries included in consolidated retained earnings aggregated to approximately \$1.9 billion at June 24, 2012. These earnings are indefinitely reinvested in foreign operations. If these earnings were remitted to the United States, they would be subject to U.S. and foreign withholding taxes of approximately \$430.5 million at current statutory rates. The Company's federal income tax provision includes U.S. income taxes on certain foreign-based income.

As of June 24, 2012, the total gross unrecognized tax benefits were \$343.8 million compared to \$181.5 million as of June 26, 2011, and \$190.5 million as of June 27, 2010. During fiscal year 2012, gross unrecognized tax benefits increased by approximately \$162.3 million, primarily related to the acquisition of Novellus. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$278.2 million, \$120.4 million, and \$153.8 million as of June 24, 2012, June 26, 2011, and June 27, 2010, respectively. The aggregate changes in the balance of gross unrecognized tax benefits were as follows:

	<u>(in millions)</u>
<b>Balance as of June 28, 2009</b> .....	<b>\$ 178.4</b>
Settlements and effective settlements with tax authorities .....	(1.3)
Lapse of statute of limitations .....	(8.1)
Increases in balances related to tax positions taken during prior periods .....	5.5
Decreases in balances related to tax positions taken during prior periods .....	(2.0)
Increases in balances related to tax positions taken during current period .....	18.0
<b>Balance as of June 27, 2010</b> .....	<b>\$ 190.5</b>
Settlements and effective settlements with tax authorities .....	(24.2)
Lapse of statute of limitations .....	(5.2)
Increases in balances related to tax positions taken during prior periods .....	13.7
Decreases in balances related to tax positions taken during prior periods .....	(13.4)
Increases in balances related to tax positions taken during current period .....	20.1
<b>Balance as of June 26, 2011</b> .....	<b>181.5</b>
Settlements and effective settlements with tax authorities .....	(0.2)
Lapse of statute of limitations .....	(6.6)
Increases in balances related to tax positions taken during prior periods .....	1.4
Decreases in balances related to tax positions taken during prior periods .....	(4.3)
Increases in balances related to tax positions taken during current period .....	22.3
Tax positions assumed in Novellus transaction .....	149.7
<b>Balance as of June 24, 2012</b> .....	<b>\$ 343.8</b>



The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense. The Company had accrued \$25.2 million, \$16.9 million, and \$18.5 million, cumulatively, for gross interest and penalties as of June 24, 2012, June 26, 2011 and June 27, 2010, respectively.

The Internal Revenue Service (“IRS”) is examining the Company’s and Novellus’ U.S. income tax returns for fiscal years through 2009. As of June 24, 2012, no significant adjustments have been proposed by the IRS. The Company is unable to make a reasonable estimate as to when cash settlements, if any, with the relevant taxing authorities will occur. In addition, the Company is also subject to audits by foreign tax authorities.

The Company files U.S. federal, U.S. state, and foreign income tax returns. As of June 24, 2012, tax years 2003-2011 remain subject to examination in the jurisdictions where the Company operates.

The Company is in various stages of the examinations in connection with all of its tax audits worldwide and it is difficult to determine when these examinations will be settled. It is reasonably possible that over the next twelve-month period the Company may experience an increase or decrease in its unrecognized tax benefits. It is not possible to determine either the magnitude or the range of any increase or decrease at this time.

#### **Note 16: Acquisitions**

On June 4, 2012 (“the acquisition date”), the Company acquired all of the outstanding common shares of Novellus in an all-stock transaction valued at approximately \$3.0 billion. The results of Novellus’ operations have been included in the consolidated financial statements for the period from June 4, 2012 to June 24, 2012. Lam’s primary reasons for this acquisition were to complement existing product offerings and to provide opportunities for revenue and cost synergies. Novellus’ primary business focus is to develop, manufacture, sell and support equipment used in the fabrication of integrated circuits, commonly called chips or semiconductors. Customers for this equipment manufacture chips for sale or for incorporation in their own products, or provide chip-manufacturing services to third parties. Novellus also develops, manufactures, sells and supports grinding, lapping and polishing equipment for a broad spectrum of industrial applications.

As a result of the acquisition, Lam Research issued common stock and equity-based awards, subject to certain exceptions, as follows:

- (i) each issued and outstanding share of common stock of Novellus was converted into 1.125 (the “exchange ratio”) shares of Lam Research common stock, with cash paid in lieu of fractional shares;
- (ii) each outstanding option for Novellus’ common stock held by a then-current employee of Novellus, whether vested or unvested, was assumed by Lam Research and converted into an option (A) to acquire that number of shares of Lam Research common stock (rounded down to the nearest whole share) equal to the product of (x) the number of shares of Novellus common stock for which such option was exercisable immediately prior to the acquisition date multiplied by (y) the exchange ratio and (B) with an exercise price per share of Lam Research (rounded up to the nearest whole penny) equal to the quotient obtained by dividing (z) the exercise price per share of Novellus common stock subject to such option immediately prior to the acquisition date divided by (y) the exchange ratio. Each assumed stock option will be subject to, and exercisable and vested on, the same terms and conditions applicable to such assumed stock option (consistent with the terms of the applicable Novellus stock plan, the applicable stock option agreement and any other applicable Novellus plan) as of immediately prior to the acquisition date; and
- (iii) each outstanding Novellus RSU and each outstanding Novellus performance-based RSU (“PSU”) held by a then-current employee of Novellus, whether vested or unvested, was assumed by Lam Research and converted into a restricted stock unit to acquire the number of shares of Lam Research common stock (rounded down to the nearest whole share) equal to the product obtained by multiplying (x) the number of shares of Novellus common stock subject to such RSU or PSU, as applicable, immediately

prior to the acquisition date by (y) 1.125. Novellus PSUs that vest in connection with the consummation of the acquisition will become fully vested with respect to the maximum number of shares of Novellus common stock payable pursuant to such Novellus PSU. Each assumed RSU or PSU, as applicable, will be subject to, and vested on, the same terms and conditions applicable to such assumed RSU or PSU.

### *Consideration Transferred*

The table below details the consideration transferred to acquire Novellus:

<u>(in thousands, except per share amounts)</u>	<u>Conversion Calculation</u>	<u>Estimated Fair Value</u>
Lam common stock issued at merger . . . . .	82,689	
Per share price of Lam common stock as of June 4, 2012 . . . . .	<u>\$ 35.99</u>	\$2,975,977
Estimated fair value of vested Lam equivalent restricted stock <sup>(1)</sup> . . . . .		\$ 9,599
Estimated fair value of vested Lam equivalent stock options <sup>(2)</sup> . . . . .		<u>41,412</u>
<b>Estimated purchase price consideration . . . . .</b>		<b><u>\$3,026,988</u></b>

- (1) The fair value of Lam Research equivalent restricted stock as of the acquisition date was estimated based upon the per share price of Lam Research common stock as of June 4, 2012, and giving effect to the exchange ratio of 1.125.
- (2) The fair value of the Lam Research equivalent stock options as of the acquisition date was estimated using the Black-Scholes valuation model. Assumptions used are the same as those for acquired awards as disclosed in Note 11 of Notes to Condensed Consolidated Financial Statements.

### *Net Assets Acquired*

The transaction has been accounted for using the acquisition method of accounting which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the assets acquired and liabilities assumed as of the acquisition date:

	<u>June 4, 2012</u> <u>(in thousands)</u>
Cash and investments . . . . .	\$1,059,859
Accounts receivable . . . . .	241,924
Inventory . . . . .	309,213
Other current assets . . . . .	56,314
Property and equipment . . . . .	289,126
Intangible assets . . . . .	1,219,100
Goodwill . . . . .	1,277,121
Other long-term assets . . . . .	<u>35,826</u>
Total assets acquired . . . . .	4,488,483
Accounts payable . . . . .	(83,028)
Accrued expenses and other current liabilities . . . . .	(196,677)
Deferred revenue . . . . .	(20,388)
Debt . . . . .	(509,805)
Other long-term liabilities . . . . .	(323,471)
Convertible notes - equity component . . . . .	<u>(328,126)</u>
<b>Net assets acquired . . . . .</b>	<b><u>\$3,026,988</u></b>

The following table is a summary of the fair value estimates of the identifiable intangible assets and their useful lives:

	<u>Useful Lives</u>	<u>Estimated Fair Value June 4, 2012</u>
	(in thousands, except years)	
Existing technology . . . . .	7	\$ 580,000
Customer relationships . . . . .	6-10	580,000
In-process research and design . . . . .	Indefinite	30,000
Patents . . . . .	6	10,000
Backlog . . . . .	1	10,000
Additional development rights . . . . .	Indefinite	<u>9,100</u>
Total . . . . .		<u>\$1,219,100</u>

The goodwill recognized is attributable primarily to expected synergies and other benefits that the Company believes will result from combining the operations of Novellus with the operations of Lam. The \$1.3 billion goodwill that was acquired is not expected to be deductible for income tax purposes. As of June 24, 2012, there were no changes in the recognized amounts of goodwill resulting from the acquisition of Novellus.

*Preliminary Pre-Acquisition Contingencies Assumed*

We have evaluated and continue to evaluate pre-acquisition contingencies relating to Novellus that existed as of the acquisition date. We have determined that certain of these pre-acquisition contingencies are probable in nature and estimable as of the acquisition date and, accordingly, have preliminarily recorded our best estimates for these contingencies as a part of the purchase price allocation for Novellus. We continue to gather information for and evaluate these pre-acquisition contingencies, primarily related to tax positions that we have assumed from Novellus. If we make changes to the amounts recorded or identify additional pre-acquisition contingencies during the remainder of the measurement period, such amounts recorded will be included in the purchase price allocation during the measurement period and, subsequently, in our results of operations.

*Acquisition Costs*

The Company recognized \$36 million of acquisition related costs that were expensed in the year ended June 24, 2012. These costs are included within selling, general, and administrative expense in the Consolidated Statement of Operations.

*Actual and Pro-forma Results*

The amounts of revenue and net income (loss) of Novellus included in the Company's consolidated Statement of Operations from the acquisition date to June 24, 2012 are as follows:

	(in thousands)
Revenue . . . . .	\$ 25,843
Net income (loss) . . . . .	\$(29,187)

The unaudited pro-forma results presented below include the effects of the Novellus acquisition as if it had been consummated as of June 28, 2010. The pro forma results below include adjustments related to conforming revenue accounting policies, depreciation and amortization to reflect the fair value of acquired property, plant and equipment and identifiable intangible assets, and the associated income tax impacts. The pro forma results for the years ended June 24, 2012 include \$122 million of costs related to inventory fair value adjustments on products sold, share-based compensation associated with accelerated vesting and acquisition-related costs, which

are not expected to occur in future quarters. The pro forma information does not necessarily reflect the actual results of operations had the acquisition been consummated at the beginning of the fiscal reporting period indicated nor is it indicative of future operating results. The pro forma information does not include any adjustment for (i) potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition or (ii) transaction or integration costs relating to the acquisition.

	Year Ended	
	June 24, 2012	June 26, 2011
	(in thousands, except per share amounts)	
Pro forma revenue . . . . .	\$3,804,252	\$4,743,797
Pro forma net income . . . . .	\$ 152,981	\$ 894,864
Pro forma basic earnings per share . . . . .	\$ 0.76	\$ 4.34
Pro forma diluted earnings per share . . . . .	\$ 0.74	\$ 4.18

### Note 17: Goodwill and Intangible Assets

#### Goodwill

There were no changes in the goodwill balance during the twelve months ended June 26, 2011. The balance of goodwill increased from \$169 million as of June 26, 2011 to \$1.4 billion as of June 24, 2012 as a result of \$1.3 billion of goodwill acquired in the Novellus acquisition.

Of the \$1.4 billion goodwill balance, \$61 million is tax deductible and the remaining balance is not tax deductible due to purchase accounting and applicable foreign law.

The Company's goodwill is measured at fair value when an impairment exists. Goodwill is assessed at least annually for impairment. The Company did not record impairments of goodwill during the years ended June 24, 2012, June 26, 2011, or June 27, 2010.

#### Intangible Assets

The acquisition of Novellus during the quarter ended June 24, 2012 resulted in an increase of \$1.2 billion in intangible assets. The following table provides the Company's intangible assets as of June 24, 2012 (in thousands, except years):

	Gross*	Accumulated Amortization	Net	Weighted- Average Useful Life (years)
Customer relationships . . . . .	\$ 615,411	\$ (32,041)	\$ 583,370	9.04
Existing technology . . . . .	642,311	(48,378)	593,933	6.97
Patents . . . . .	30,870	(17,525)	13,345	6.05
Backlog . . . . .	10,000	(548)	9,452	1.00
Other intangible assets . . . . .	35,216	(33,989)	1,227	4.10
Intangible assets subject to amortization . . . . .	1,333,808	(132,481)	1,201,327	
IP R&D . . . . .	30,000	—	30,000	
Development rights . . . . .	9,100	—	9,100	
Intangible assets not subject to amortization . . . . .	39,100	—	39,100	
Total intangible assets . . . . .	<u>\$1,372,908</u>	<u>\$(132,481)</u>	<u>\$1,240,427</u>	

\* Includes impact of foreign currency translation adjustments

The following table provides details of the Company's intangible assets as of June 26, 2011 (in thousands, except years):

	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Weighted- Average Useful Life (years)</u>
Customer relationships .....	\$ 35,226	\$ (23,468)	\$11,758	6.90
Existing technology .....	61,941	(35,409)	26,532	6.68
Patents .....	20,670	(14,323)	6,347	6.11
Other intangible assets .....	35,216	(32,419)	2,797	4.10
Total intangible assets .....	<u>\$153,053</u>	<u>\$(105,619)</u>	<u>\$47,434</u>	6.06

The Company recognized \$26.9 million, \$21.0 million, and \$23.9 million, in intangible asset amortization expense during fiscal years 2012, 2011, and 2010, respectively.

The estimated future amortization expense of intangible assets, excluding those with indefinite lives, as of June 24, 2012 was as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2013 .....	\$ 176,392
2014 .....	160,968
2015 .....	152,728
2016 .....	150,905
2017 .....	150,646
Thereafter .....	409,688
	<u>\$1,201,327</u>

#### **Note 18: Segment, Geographic Information and Major Customers**

The Company operates in one reportable business segment: manufacturing and servicing of wafer processing semiconductor manufacturing equipment. The Company's material operating segments qualify for aggregation due to their customer base and similarities in economic characteristics, nature of products and services, and processes for procurement, manufacturing and distribution.

The Company operates in six geographic regions: North America, Europe, Japan, Korea, Taiwan, and Asia Pacific. For geographical reporting, revenue is attributed to the geographic location in which the customers' facilities are located while long-lived assets are attributed to the geographic locations in which the assets are located.

Revenues and long-lived assets by geographic region were as follows:

	<u>Year Ended</u>		
	<u>June 24, 2012</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
	(in thousands)		
Revenue:			
Korea .....	\$ 893,549	\$ 756,660	\$ 539,312
Taiwan .....	467,922	766,910	703,854
North America .....	458,531	393,004	186,036
Japan .....	308,189	405,371	318,641
Asia Pacific .....	292,963	492,600	252,248
Europe .....	244,038	423,148	133,685
Total revenue .....	<u>\$2,665,192</u>	<u>\$3,237,693</u>	<u>\$2,133,776</u>

	<u>June 24, 2012</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
	(in thousands)		
Long-lived assets:			
North America .....	\$463,156	\$191,221	\$136,601
Europe .....	107,893	69,442	56,256
Asia Pacific .....	8,317	3,738	3,922
Taiwan .....	3,169	3,897	2,385
Japan .....	1,068	1,067	658
Korea .....	993	1,093	514
Total long-lived assets .....	<u>\$584,596</u>	<u>\$270,458</u>	<u>\$200,336</u>

In fiscal year 2012, three customers accounted for approximately 30%, 12%, and 10% of total revenues. In fiscal year 2011, one customer accounted for approximately 24% of total revenues. In fiscal year 2010, three customers accounted for approximately 24%, 15%, and 11% of total revenues.

#### **Note 19: Restructuring and Asset Impairments**

Prior to the end of each of the June 2008, December 2008, and March 2009 quarters, the Company initiated the announced restructuring activities and management, with the proper level of authority, approved specific actions under the June 2008, December 2008, and March 2009 Plans. Severance packages to affected 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 and certain contractual obligations 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 it was determined that these items would have no future economic benefit to the Company and have been abandoned.

Accounting for restructuring activities, as compared to regular operating cost management 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.

The following table summarizes restructuring and asset impairment charges (recoveries) during fiscal years 2012, 2011, and 2010 for each restructuring Plan:

	<u>Year Ended</u>		
	<u>June 24, 2012</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
	(in thousands)		
June 2008 Plan .....	\$ (859)	\$ —	\$ (2,217)
December 2008 Plan .....	—	(230)	92
March 2009 Plan .....	—	11,809	20,891
Total restructuring and asset impairment charges incurred under restructuring plans .....	<u>(859)</u>	<u>11,579</u>	<u>18,766</u>
Asset impairments outside of specific restructuring plans .....	<u>1,725</u>	<u>—</u>	<u>5,986</u>
Total restructuring and asset impairment charges .....	<u>\$ 866</u>	<u>\$11,579</u>	<u>\$24,752</u>

The amounts in the table above were reported in the Company's consolidated statement of operations for fiscal years ended 2012, 2011, and 2010 as follows:

	<u>Year Ended</u>		
	<u>June 24, 2012</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
	(in thousands)		
Cost of goods sold .....	\$ (859)	\$ —	\$ 3,438
Operating expense .....	<u>1,725</u>	<u>11,579</u>	<u>21,314</u>
Total restructuring and asset impairments .....	<u>\$ 866</u>	<u>\$11,579</u>	<u>\$24,752</u>

*June 2008 Plan*

During the June 2008 quarter, the Company incurred restructuring expenses and asset impairment charges related to the integration of SEZ and overall streamlining of the Company's combined Clean Product Group ("June 2008 Plan"). Charges (recoveries) during fiscal years 2012, 2011, and 2010 were as follows:

	<u>Year Ended</u>		
	<u>June 24, 2012</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
	(in thousands)		
Severance and benefits .....	\$ —	\$—	\$ (42)
Inventory .....	<u>(859)</u>	<u>—</u>	<u>(2,175)</u>
Total restructuring and asset impairment charges .....	<u>\$(859)</u>	<u>\$—</u>	<u>\$(2,217)</u>

Total charges incurred as of June 24, 2012 under the June 2008 Plan were \$34.9 million. There was no remaining liability under the June 2008 Plan as of either June 24, 2012 or June 26, 2011.

*December 2008 Plan*

During the December 2008 quarter, the Company incurred restructuring expenses and asset impairment charges designed to better align the Company's cost structure with its business opportunities in consideration of market and economic uncertainties ("December 2008 Plan"). Charges during fiscal years 2012, 2011, and 2010 were as follows:

	<u>Year Ended</u>		
	<u>June 24, 2012</u>	<u>June 26, 2011</u>	<u>June 27, 2010</u>
	(in thousands)		
Severance and benefits .....	<u>\$—</u>	<u>\$(230)</u>	<u>\$92</u>
Total restructuring and asset impairment charges .....	<u>\$—</u>	<u>\$(230)</u>	<u>\$92</u>

Below is a table summarizing activity relating to the December 2008 Plan:

	<b>Severance and Benefits</b>
	<b>(in thousands)</b>
Balance at June 28, 2009 .....	\$ 684
Fiscal year 2010 expense .....	92
Cash payments .....	<u>(497)</u>
Balance at June 27, 2010 .....	279
Cash payments .....	(27)
Fiscal year 2011 expense .....	<u>(230)</u>
Balance at June 26, 2011 .....	22
Cash payments .....	<u>(22)</u>
Balance at June 24, 2012 .....	<u>\$ —</u>

Total charges incurred as of June 24, 2012 under the December 2008 Plan were \$17.7 million.

#### *March 2009 Plan*

During the March 2009 quarter, the Company incurred restructuring expenses and asset impairment charges designed to align the Company's cost structure with its outlook for the current economic environment and future business opportunities ("March 2009 Plan"). Restructuring and asset impairment charges during fiscal years 2012, 2011, and 2010 under the March 2009 Plan were as follows:

	<b>Year Ended</b>		
	<b>June 24, 2012</b>	<b>June 26, 2011</b>	<b>June 27, 2010</b>
	<b>(in thousands)</b>		
Severance and benefits .....	\$—	\$ (43)	\$ 472
Facilities .....		11,852	19,832
Abandoned assets .....	—	—	587
Total restructuring and asset impairment charges .....	<u>\$—</u>	<u>\$11,809</u>	<u>\$20,891</u>

Below is a table summarizing activity relating to the March 2009 Plan:

	<b>Severance and Benefits</b>	<b>Facilities</b>	<b>Abandoned Assets</b>	<b>Total</b>
	<b>(in thousands)</b>			
Balance at June 28, 2009 .....	\$ 3,925	\$ 437	\$ —	\$ 4,362
Fiscal year 2010 expense .....	472	19,832	587	20,891
Cash payments .....	(4,132)	(3,417)	—	(7,549)
Non-cash charges .....	—	—	(587)	(587)
Balance at June 27, 2010 .....	265	16,852	—	17,117
Fiscal year 2011 expense .....	(43)	11,852	—	11,809
Cash payments .....	<u>(222)</u>	<u>(598)</u>	<u>—</u>	<u>(820)</u>
Balance at June 26, 2011 .....	—	28,106	—	28,106
Cash payments .....	<u>—</u>	<u>(357)</u>	<u>—</u>	<u>(357)</u>
Balance at June 24, 2012 .....	<u>\$ —</u>	<u>\$27,749</u>	<u>\$ —</u>	<u>\$27,749</u>

Total charges incurred as of June 24, 2012 under the March 2009 Plan were \$61.3 million. The facilities balance consists primarily of lease payments, net of sublease income, on vacated buildings and is expected to be paid by the end of fiscal year 2015.



### *Acquired Restructuring Liabilities*

In addition to restructuring plans initiated by the Company, a restructuring liability of \$11.2 million was assumed in the Novellus acquisition related to future rent obligations on unoccupied facilities.

### **Note 20: Stock Repurchase Program**

On September 10, 2010, the Board of Directors authorized the repurchase of up to \$250 million of Company common stock and on September 1, 2011 the Board of Directors authorized the repurchase of up to an additional \$500 million of Company common stock. On December 14, 2011, the Board of Directors authorized the repurchase of up to \$1.6 billion of Company common stock, which replaces the previous repurchase authorizations. These repurchases can be conducted on the open market or as private purchases and may include the use of derivative contracts with large financial institutions, in all cases subject to compliance with applicable law. Repurchases will be funded using the Company's available cash. This repurchase program has no termination date and may be suspended or discontinued at any time.

Repurchases under the repurchase program were as follows during the periods indicated:

<u>Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Total Cost of Repurchase</u> (in thousands, except per share data)	<u>Average Price Paid Per Share*</u>	<u>Amount Available Under Repurchase Program</u>
Available balance as of June 26, 2011 . . . . .				\$ 249,244
Authorization of additional \$500 million -				
September 2011 . . . . .	—	\$ —	\$ —	\$ 749,244
Quarter ended September 25, 2011 . . . . .	1,977	\$ 74,287	\$37.57	\$ 674,957
Quarter ended December 25, 2011 . . . . .	2,860	\$110,637	\$38.69	\$ 564,320
Authorization of replacement \$1.6 billion plan - December 2011 . . . . .				\$1,600,000
Quarter ended March 25, 2012 . . . . .	300	\$ 12,513	\$41.71	\$1,587,487
Quarter ended June 24, 2012 . . . . .	16,323	\$675,554	\$37.55	\$ 911,933

\* Average price excludes accelerated share repurchases that had not settled as of June 24, 2012 as the final price per share for these repurchases was not known until each transactions' settlement date in fiscal 2013.

In addition to shares repurchased under Board authorized repurchase program shown above, the Company acquired 486,000 shares at a total cost of \$20.5 million which the Company withheld through net share settlements to cover minimum tax withholding obligations upon the vesting of restricted stock unit awards granted under the Company's equity compensation plans. The shares retained by the Company through these net share settlements are not a part of the Board-authorized repurchase program but instead are authorized under the Company's equity compensation plans.

As part of its share repurchase program, the Company may from time-to-time enter into structured share repurchase arrangements with financial institutions using general corporate funds. During fiscal year 2012 such arrangements included the following.

#### *Cash Enhanced Share Repurchases*

Under cash enhanced share repurchases, the Company is required to make an up-front cash payment in exchange for the right to receive shares of its common stock or cash at the expiration of the agreement, dependent upon the closing price of the Corporation's common stock at the settlement date. During the year ended June 24, 2012 one such arrangement resulted in the receipt of 2.6 million shares upon settlement at an aggregate price of \$100.0 million and two such arrangements were settled in cash for an aggregate of \$130.2 million. All cash enhanced share repurchase agreements during fiscal year 2012 were executed prior to the December 2011 \$1.6 billion buyback authorization. As of June 24, 2012 there are no outstanding prepayments

under such arrangements. Under these arrangements, any prepayments or cash payments at settlement are recorded as a component of Additional paid in capital in the Company's Consolidated Balance Sheet.

#### *Collared Accelerated Share Repurchases*

During the year ended June 24, 2012, the Company entered into two share repurchase transactions under one master repurchase arrangement. Under these collared accelerated share repurchase transactions ("ASRs"), the Company made up-front cash payments of \$375 million and \$200 million, respectively, three days after the respective trade date in exchange for an initial delivery of 6.6 million and 3.9 million shares of its common stock, respectively. The number of shares to ultimately be repurchased by the Company is based generally on the volume-weighted average price ("VWAP") of the Company's common stock during the term of the ASR minus a pre-determined discount set at inception of the ASR, subject to collar provisions that provide a minimum and maximum number of shares that the Company could repurchase under the agreements.

The minimum and maximum thresholds for each transaction are established based on the average of the VWAP prices for the Company's common stock during an initial hedge period. The Company received incremental shares on top of the initial shares delivered such that the total number of shares received after the initial hedge period equaled 8.8 million and 4.8 million shares, equivalent to the minimum number of shares to be delivered under the terms of the ASRs, respectively. The ASRs were scheduled to end on or before September 18, 2012 and October 9, 2012, respectively. However, each ASR is subject to acceleration at the option of the counterparty at any time after June 27, 2012 and July 19, 2012, respectively. At the conclusion of the ASRs, the Company may receive additional shares based on the VWAP of the Company's common stock during the term of the agreement minus the pre-determined fixed discount, such that the total number of shares received under the ASRs does not exceed the maximum of 10.8 million 6.6 million shares, respectively.

The Company accounted for each ASR as two separate transactions: (a) as shares of common stock acquired in a treasury stock transaction recorded on the acquisition date and (b) as a forward contract indexed to the Company's own common stock and classified in stockholders' equity. As such, the Company accounted for the shares that it received under the ASRs as a repurchase of its common stock for the purpose of calculating earnings per common share. The Company has determined that the forward contract indexed to the Company's common stock met all of the applicable criteria for equity classification in accordance with the Derivatives and Hedging topic of the FASB ASC, and, therefore, the ASRs were not accounted for as derivative instruments. As of June 24, 2012, the aggregate repurchase price of \$575.0 million is reflected as Treasury stock, at cost, in the Condensed consolidated balance sheet.

The counterparty designated July 6, 2012 as the accelerated termination date, at which time the Company settled the \$375 million ASR and received an additional 1.3 million shares of common stock in addition to the minimum shares already received, which represented a weighted average share price of approximately \$36.80 for the transaction period. The counterparty designated July 25, 2012 as the accelerated termination date, at which time the Company settled the \$200 million ASR and received an additional 0.7 million shares of common stock in addition to the minimum shares already received, which represented a weighted average share price of approximately \$36.12 for the transaction period.

#### **Note 21: Legal Proceedings**

The Company is either a defendant or plaintiff in various actions that have arisen from time to time in the normal course of business, including intellectual property claims. The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, the Company believes that the amount of any such additional loss would be immaterial to the Company's business, financial condition, and results of operations.

## **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 24, 2012 and June 26, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 24, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15. 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 at June 24, 2012 and June 26, 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 24, 2012, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lam Research Corporation's internal control over financial reporting as of June 24, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 22, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California  
August 22, 2012

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Lam Research Corporation

We have audited Lam Research Corporation's internal control over financial reporting as of June 24, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lam Research Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Novellus Systems, which is included in the June 24, 2012 consolidated financial statements of Lam Research Corporation, and constituted 25 percent and 23 percent of total and net assets, respectively, excluding acquisition method fair value adjustments as of June 24, 2012 and 1 percent of revenues, for the year then ended. Our audit of internal control over financial reporting of Lam Research Corporation also did not include an evaluation of the internal control over financial reporting of Novellus Systems.

In our opinion, Lam Research Corporation maintained, in all material respects, effective internal control over financial reporting as of June 24, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lam Research Corporation as of June 24, 2012 and June 26, 2011, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 24, 2012 of Lam Research Corporation and our report dated August 22, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California  
August 22, 2012

**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/ Martin B. Anstice  
Martin B. Anstice  
*President and Chief Executive Officer*

Dated: August 22, 2012

## POWER OF ATTORNEY AND SIGNATURES

By signing this Annual Report on Form 10-K below, I hereby appoint each of Martin B. Anstice and Ernest E. Maddock, jointly and severally, as my attorney-in-fact to sign all amendments to this Form 10-K on my behalf, and to file this Form 10-K (including all exhibits and other related documents) with the Securities and Exchange Commission. I authorize each of my attorneys-in-fact to (1) appoint a substitute attorney-in-fact for himself and (2) perform any actions that he believes are necessary or appropriate to carry out the intention and purpose of this Power of Attorney. I ratify and confirm all lawful actions taken directly or indirectly by my attorneys-in-fact and by any properly appointed substitute attorneys-in-fact.

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 dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<b>Principal Executive Officer</b>		
<u>/s/ Martin B. Anstice</u> Martin B. Anstice	President and Chief Executive Officer	August 22, 2012
<b>Principal Financial Officer and Principal Accounting Officer</b>		
<u>/s/ Ernest E. Maddock</u> Ernest E. Maddock	Senior Vice President, Chief Financial Officer, and Chief Accounting Officer	August 22, 2012
<b>Other Directors</b>		
<u>/s/ James W. Bagley</u> James W. Bagley	Executive Chairman	August 22, 2012
<u>/s/ Stephen G. Newberry</u> Stephen G. Newberry	Vice Chairman	August 22, 2012
<u>/s/ Robert M. Berdahl</u> Robert M. Berdahl	Director	August 22, 2012
<u>/s/ Eric K. Brandt</u> Eric K. Brandt	Director	August 22, 2012
<u>/s/ Michael R. Cannon</u> Michael R. Cannon	Director	August 22, 2012
<u>/s/ Youssef A. El-Mansy</u> Youssef A. El-Mansy	Director	August 22, 2012
<u>/s/ Christine Heckart</u> Christine Heckart	Director	August 22, 2012
<u>/s/ Grant M. Inman</u> Grant M. Inman	Director	August 22, 2012
<u>/s/ Catherine P. Lego</u> Catherine P. Lego	Director	August 22, 2012

<u>Signatures</u>		<u>Title</u>	<u>Date</u>
<u>/s/ Kim Perdikou</u> Kim Perdikou	Director		August 22, 2012
<u>/s/ Krishna Saraswat</u> Krishna Saraswat	Director		August 22, 2012
<u>/s/ William R. Spivey</u> William R. Spivey	Director		August 22, 2012
<u>/s/ Abhi Talwalkar</u> Abhi Talwalkar	Director		August 22, 2012
<u>/s/ Delbert A. Whitaker</u> Delbert A. Whitaker	Director		August 22, 2012

**LAM RESEARCH CORPORATION**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**

<u>Description</u>	<u>Additions</u>		<u>Write-offs, Net of Recoveries (1)</u>	<u>Balance at End of Period</u>
	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>		
	(in thousands)			
YEAR ENDED JUNE 24, 2012				
Deducted from asset accounts:				
Allowance for doubtful accounts . . .	\$ 4,720,000	\$403,000	\$ 125,000	\$ 5,248,000
YEAR ENDED JUNE 26, 2011				
Deducted from asset accounts:				
Allowance for doubtful accounts . . .	\$10,609,000	\$290,000	\$(6,179,000)	\$ 4,720,000
YEAR ENDED JUNE 27, 2010				
Deducted from asset accounts:				
Allowance for doubtful accounts . . .	\$10,719,000	\$ 45,000	\$ (155,000)	\$10,609,000

- (1) During fiscal year 2012, write-off, net of recoveries represents \$0.1 million of recoveries against previously written-off balances  
During fiscal year 2011, write-off, net of recoveries represents \$3.8 million release of reserve and \$2.4 million write-off of customer specific accounts.  
During fiscal year 2010, write-off, net of recoveries represents \$0.2 million of write-offs of specific customer accounts.



**LAM RESEARCH CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE FISCAL YEAR ENDED JUNE 24, 2012**  
**EXHIBIT INDEX**

<u>Exhibit</u>	<u>Description</u>
3.1(2)	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 of March 7, 2000; and the Certificate of Amendment effective as of November 5, 2009.
3.2(14)	Bylaws of the Registrant, as amended, dated June 2, 2012.
3.3(2)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated January 27, 1997.
4.1(16)	Indenture (including Form of Notes), dated as of May 11, 2011, by and between Lam Research Corporation, and The Bank of New York Mellon Trust Company, N.A, as trustee, with respect to the 2016 Notes
4.2(16)	Indenture (including Form of Notes), dated as of May 11, 2011, by and between Lam Research Corporation, and The Bank of New York Mellon Trust Company, N.A, as trustee, with respect to the 2018 Notes
4.8(5)*	Amended and restated 1997 Stock Incentive Plan.
4.12(4)*	Amended and restated 1999 Stock Option Plan.
4.13(11)*	Lam Research Corporation 1999 Employee Stock Purchase Plan, as amended.
4.14(11)*	Lam Research Corporation 2004 Executive Incentive Plan, as amended.
4.15(7)*	Lam Research Corporation 2007 Stock Incentive Plan, as amended.
4.16(17)*	Lam Research Corporation Elective Deferred Compensation Plan.
4.17(17)*	Lam Research Corporation Elective Deferred Compensation Plan II.
4.18(20)	Indenture between Novellus Systems, Inc. as Issuer and The Bank of New York Mellon Trust Company, N.A. as Trustee, dated as of May 10, 2011, including the form of 2.625% Senior Convertible Notes due 2041.
4.19(14)	Supplemental Indenture among the Registrant, as Guarantor, Novellus Systems, Inc. as Issuer and The Bank of New York Mellon Trust Company, N.A. as Trustee, dated as of June 4, 2012.
10.3(1)*	Form of Indemnification Agreement.
10.99(3)*	Form of Nonstatutory Stock Option Agreement — Lam Research Corporation 1997 Stock Incentive Plan.
10.102(6)	Form of Restricted Stock Unit Award Agreement (U.S. Agreement A) — Lam Research Corporation 1997 Stock Incentive Plan.
10.103(6)	Form of Restricted Stock Unit Award Agreement (non-U.S. Agreement I-A) — Lam Research Corporation 1997 Stock Incentive Plan.
10.106(8)*	Form of Restricted Stock Unit Award Agreement (U.S. Agreement) — Lam Research Corporation 2007 Stock Incentive Plan
10.107(9)	Form of Restricted Stock Unit Award Agreement — Outside Directors (U.S. Agreement) — Lam Research Corporation 2007 Stock Incentive Plan.

- 10.108(9) Form of Restricted Stock Unit Award Agreement — Outside Directors (non-U.S. Agreement) — Lam Research Corporation 2007 Stock Incentive Plan.
- 10.117(10) Lease Agreement (Fremont Building #1) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.118(10) Pledge Agreement (Fremont Building #1) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.119(10) Closing Certificate and Agreement (Fremont Building #1) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.120(10) Agreement Regarding Purchase and Remarketing Options (Fremont Building #1) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.121(10) Lease Agreement (Fremont Building #2) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.122(10) Pledge Agreement (Fremont Building #2) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.123(10) Closing Certificate and Agreement (Fremont Building #2) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.124(10) Agreement Regarding Purchase and Remarketing Options (Fremont Building #2) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.125(10) Lease Agreement (Fremont Building #3) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.126(10) Pledge Agreement (Fremont Building #3) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.127(10) Closing Certificate and Agreement (Fremont Building #3) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.128(10) Agreement Regarding Purchase and Remarketing Options (Fremont Building #3) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.129(10) Lease Agreement (Fremont Building #4) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.130(10) Pledge Agreement (Fremont Building #4) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.131(10) Closing Certificate and Agreement (Fremont Building #4) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.132(10) Agreement Regarding Purchase and Remarketing Options (Fremont Building #4) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 21, 2007.
- 10.133(10) Lease Agreement (Livermore/Parcel 6) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.134(10) Pledge Agreement (Livermore/Parcel 6) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.135(10) Closing Certificate and Agreement (Livermore/Parcel 6) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.136(10) Agreement Regarding Purchase and Remarketing Options (Livermore/Parcel 6) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.

- 10.137(10) Construction Agreement (Livermore/Parcel 6) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.138(10) Lease Agreement (Livermore/Parcel 7) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.139(10) Pledge Agreement (Livermore/Parcel 7) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.140(10) Closing Certificate and Agreement (Livermore/Parcel 7) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.141(10) Agreement Regarding Purchase and Remarketing Options (Livermore/Parcel 7) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.142(10) Construction Agreement (Livermore/Parcel 7) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated December 18, 2007.
- 10.143(11) First Modification Agreement (Fremont Buildings #1, #2, #3, #4) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated April 3, 2008.
- 10.144(11) First Modification Agreement (Livermore Parcel 6) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated April 3, 2008.
- 10.145(11) Second Modification Agreement (Livermore Parcel 6) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated July 9, 2008.
- 10.146(11) First Modification Agreement (Livermore Parcel 7) between Lam Research Corporation and BNP Paribas Leasing Corporation, dated July 9, 2008.
- 10.148(12)\*Form of Indemnification Agreement.
- 10.149(12)\*Reformation of Stock Option Agreement.
- 10.150(13)\*Stock Option Amendment and Special Bonus Agreement.
- 10.153(15)\*Form of Change in Control Agreement.
- 10.154(15)\*Employment Agreement with Ernest Maddock, dated July 1, 2009.
- 10.156(18)\*Employment Agreement with Stephen G. Newberry, dated November 30, 2011.
- 10.157(18)\*Employment Agreement with Martin B. Anstice, dated November 30, 2011.
- 10.158(19)\*Employment Agreement with Timothy M. Archer, dated March 6, 2012.
- 10.159(18)\*Form of Indemnification Agreement.
- 10.160(21) Assignment and Assumption of Lessee's Interest in Lease (Units 8 and 9, Palo Alto) and Covenants, Conditions and Restrictions on Leasehold Interests (Units 1-12, Palo Alto) by and between Varian Associates, Inc. and Novellus dated May 7, 1997.
- 10.161(22) Environmental Agreement by and between Varian Associates, Inc. and Novellus dated May 7, 1997.
- 10.162(23)\*Form of Novellus Directors and Officers Indemnification Agreement.
- 10.163(24)\*GaSonics International Corporation 1994 Stock Option/Stock Issuance plan, together with forms of agreements thereunder, as assumed by Novellus.
- 10.164(24)\*GaSonics International Corporation Supplemental Stock Option Plan, as assumed by Novellus.
- 10.165(25)\*Novellus 2001 Stock Incentive Plan, as amended, together with forms of agreement thereunder.
- 10.166(26)\*SpeedFam-IPEC, Inc. Amended and Restated 1995 Stock Plan, as assumed by Novellus.

10.167(26)*	SpeedFam-IPEC, Inc. 2001 Nonstatutory Stock Option Plan, together with forms of agreements thereunder, as assumed by Novellus.
10.168(26)	Lease Guaranty between Novellus and Phoenix Industrial Investment Partners, L.P. dated January 21, 2003.
10.169(27)	Binding Memorandum of Understanding between Novellus, and Applied Materials, Inc., effective as of September 3, 2004. Portions of this exhibit have been omitted pursuant to a request for confidential treatment.
10.170(28)*	Novellus Amended Executive Voluntary Deferred Compensation Plan, as amended.
10.171(29)*	Novellus Accelerated Stock Vesting Retirement Plan Summary.
10.172*	Novellus Systems, Inc. 2011 Stock Incentive Plan, as amended July 18, 2012.
10.173*	Forms of nonstatutory stock option agreement under the Novellus 2011 Stock Incentive Plan.
10.174*	Forms of restricted stock unit award agreement under the Novellus 2011 Stock Incentive Plan.
21	Subsidiaries of the Registrant.
23.1	Consent of 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	Section 1350 Certification — (Principal Executive Officer)
32.2	Section 1350 Certification — (Principal Financial Officer)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 1988.
- (2) 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, and Registrant's Current Report on Form 8-K dated November 5, 2009.
- (3) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 27, 2004.
- (4) Incorporated by reference to Registrant's Registration Statement on Form S-8 (No. 33-127936) filed with the Securities and Exchange Commission on August 28, 2005.
- (5) Incorporated by reference to Registrant's Current Report on Form 8-K dated November 8, 2005.
- (6) Incorporated by reference to Registrant's Current Report on Form 8-K dated February 6, 2006.
- (7) Incorporated by reference to Registrant's Registration Statement on Form S-8 (No. 333-138545) filed with the Securities and Exchange Commission on November 9, 2006.
- (8) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 24, 2006.
- (9) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 25, 2007.

- (10) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 24, 2007.
  - (11) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 27, 2010.
  - (12) Incorporated by reference to Registrant's Current Report on Form 8-K dated November 13, 2008.
  - (13) Incorporated by reference to Registrant's Current Report on Form 8-K dated May 8, 2008.
  - (14) Incorporated by reference to Registrant's Current Report on Form 8-K dated June 4, 2012.
  - (15) Incorporated by reference to Registrant's Current Report on Form 8-K dated July 31, 2009
  - (16) Incorporated by reference to Registrant's Current Report on Form 8-K dated May 11, 2011
  - (17) Incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 26, 2011.
  - (18) Incorporated by reference to Registrant's Current Report on Form 8-K dated December 5, 2011.
  - (19) Incorporated by reference to Registrant's Amendment No. 1 to Registration Statement on Form S-4, dated March 6, 2012.
  - (20) Incorporated by reference to Novellus' Current Report on Form 8-K dated May 10, 2011 (SEC File No. 000-17157).
  - (21) Incorporated by reference to Novellus' Current Report on Form 8-K dated July 7, 1997 (SEC File No. 000-17157).
  - (22) Incorporated by reference to Novellus' Current Report on Form 8-K dated July 7, 1997 (SEC File No. 000-17157).
  - (23) Incorporated by reference to Novellus' Quarterly Report on Form 10-Q filed on August 13, 2002 (SEC File No. 000-17157).
  - (24) Incorporated by reference to Novellus' Annual Report on Form 10-K filed on March 23, 2001 (SEC File No. 000-17157).
  - (25) Incorporated by reference to Novellus' Quarterly Report on Form 10-Q filed on July 31, 2009 (SEC File No. 000-17157).
  - (26) Incorporated by reference to Novellus' Annual Report on Form 10-K filed on March 5, 2003 (SEC File No. 000-17157).
  - (27) Incorporated by reference to Novellus' Current Report on Form 8-K filed on September 24, 2004 (SEC File No. 000-17157).
  - (28) Incorporated by reference to Novellus' Report on Form 10-Q filed on November 5, 2008 (SEC File No. 000-17157).
  - (29) Incorporated by reference to Novellus' Quarterly Report on Form 10-Q filed on November 2, 2010 (SEC File No. 000-17157).
- \* Indicates management contract or compensatory plan or arrangement in which executive officers of the Company are eligible to participate.

## SUBSIDIARIES OF THE REGISTRANT

<u>SUBSIDIARY</u>	<u>STATE OR OTHER JURISDICTION OF OPERATION</u>
Lam Research AG	Austria
Lam Research Management GmbH	Austria
Novellus Systems Export, Inc.	Barbados
GaSonics World Trade Inc.	Barbados
IPEC FSC Ltd	Barbados
IPEC International Sales FSC Ltd	Barbados
Novellus Systems International, LLC	California, United States
Angstron Systems, Inc.	California, United States
Gamma Precision Technology	California, United States
Novellus Systems International Holdings Ltd.	Cayman Islands
Lam Research (Shanghai) Co., Ltd.	China
Lam Research Semiconductor (Suzhou) Co., Ltd.	China
Lam Research Service Co., Ltd.	China
SEZ China Co. Ltd.	China
Novellus Systems Semiconductor Equipment Shanghai Co. Ltd.	China
Novellus Systems International Trading (Shanghai) Co. Ltd.	China
Novellus International Holdco, Inc.	Delaware, United States
SpeedFam-IPEC International Services, LLC	Delaware, United States
Tmation Inc.	Delaware, United States
Novellus Development Company, LLC	Delaware, United States
Lam Research SAS	France
Novellus Systems SARL	France
Novellus Singapore Pte. Ltd., France Branch	France
Lam Research GmbH	Germany
Novellus Systems GmbH	Germany
Novellus Systems Service GmbH	Germany
NHL Sub GmbH	Germany
Peter Wolters GmbH	Germany
Novellus Systems (H.K.) Limited	Hong Kong
Novellus Systems Service (Hong Kong) Limited	Hong Kong
Peter Wolters of America, Inc.	Illinois, United States
Novellus Systems (India) Pvt. Ltd.	India
Peter Wolters Precision Solutions (India) Pvt. Ltd.	India
Lam Research (Ireland) Limited	Ireland
Novellus Systems Ireland Ltd.	Ireland
Lam Research (Israel) Ltd.	Israel
Novellus Systems Israel Ltd.	Israel
GaSonics Israel Ltd.	Israel
Novellus Systems International BV, Israel Branch	Israel
Lam Research S.r.l.	Italy
Novellus Systems Italy SRL	Italy
Lam Research Co., Ltd.	Japan

**SUBSIDIARY****STATE OR OTHER JURISDICTION OF OPERATION**

Peter Wolters Japan Co., Ltd.	Japan
Novellus Systems Japan, G.K.	Japan
Novellus Singapore Pte. Ltd., Japan Branch	Japan
Lam Research Korea Limited	Korea
Lam Research Luxembourg S.à.r.l.	Luxembourg
SpeedFam IPEC (Malaysia) Sdn. Bhd.	Malaysia
Novellus Systems (Malaysia) Sdn. Bhd.	Malaysia
Novellus Singapore Pte. Ltd., Malaysia Branch	Malaysia
LAM Research B.V.	Netherlands
Lam Research International B.V.	Netherlands
Novellus Systems BV	Netherlands
Novellus Systems International BV	Netherlands
Voumard, Inc.	New York, United States
Silfex, Incorporated	Ohio, United States
Novellus Korea LLC	Republic of South Korea
Novellus Singapore Pte. Ltd., Korea Branch	Republic of South Korea
Lam Research Singapore Pte Ltd	Singapore
SEZ Asia Pacific Pte. Ltd.	Singapore
Novellus Systems International BV, Singapore Branch	Singapore
Novellus Singapore Pte. Ltd.	Singapore
Novellus Singapore Holdings Pte. Ltd.	Singapore
Lam Research Holding GmbH	Switzerland
Lam Research International Sàrl	Switzerland
Novellus Systems (Schweiz) Holding GmbH	Switzerland
Voumard Machines Co SARL	Switzerland
Lam Research Co., Ltd.	Taiwan
Novellus Systems (H.K.) Limited, Taiwan Branch	Taiwan
Novellus Systems Service (Hong Kong) Limited, Taiwan Branch	Taiwan
Lam Research Ltd.	United Kingdom
Peter Wolters UK Ltd.	United Kingdom
Novellus Systems UK Limited	United Kingdom
Novellus Vietnam LLC	Vietnam

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form S-4 No. 333-30545 and 333-179267) of Lam Research Corporation and in the related Prospectus and in the Registration Statements (Form S-8 Nos. 333-01011, 333-18115, 333-32981, 333-45265, 333-66833, 333-72751, 333-93115, 333-74500, 333-84638, 333-127936, 333-138545, 333-156335, and 333-181878) pertaining to the amended and restated 1996 Performance-Based Restricted Stock Plan, 1997 Stock Incentive Plan, 1999 Employee Stock Purchase Plan, 1999 Stock Option Plan, 2007 Stock Incentive Plan, and the Savings Plus Plan, 401(k) of Lam Research Corporation and the Novellus Systems, Inc. 2011 Stock Incentive Plan, Novellus Systems, Inc. 2001 Stock Incentive Plan, as amended, Novellus Systems, Inc. 2001 Non-Qualified Stock Option Plan, as amended, SpeedFam-IPEC, Inc. 2001 Nonstatutory Stock Option Plan, as amended, SpeedFam-IPEC, Inc. Amended and Restated 1995 Stock Plan, GaSonics International Corporation Supplemental Stock Option Plan, as amended, GaSonics International Corporation 1994 Stock Option/Stock Issuance Plan, as amended, and the Novellus Systems, Inc. Retirement Plan of our reports dated August 22, 2012, with respect to the consolidated financial statements and schedule of Lam Research Corporation and the effectiveness of internal control over financial reporting of Lam Research Corporation included in its Annual Report (Form 10-K) for the year ended June 24, 2012, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

San Jose, California  
August 22, 2012



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

I, Martin B. Anstice, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lam Research Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 22, 2012

/s/ Martin B. Anstice

Martin B. Anstice

*President and Chief Executive Officer*

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

- I, Ernest E. Maddock, certify that:
1. I have reviewed this Annual Report on Form 10-K of Lam Research Corporation;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 22, 2012

/s/ Ernest E. Maddock

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Ernest E. Maddock  
*Senior Vice President, Chief Financial Officer and  
Chief Accounting Officer*

**SECTION 1350 CERTIFICATION (PRINCIPAL EXECUTIVE OFFICER)**

In connection with the Annual Report of Lam Research Corporation (the “Company”) on Form 10-K for the fiscal period ending June 24, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Martin B. Anstice, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 22, 2012

/s/ Martin B. Anstice

Martin B. Anstice

*President and Chief Executive Officer*

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Lam Research Corporation specifically incorporates it by reference.

**SECTION 1350 CERTIFICATION (PRINCIPAL FINANCIAL OFFICER)**

In connection with the Annual Report of Lam Research Corporation (the “Company”) on Form 10-K for the fiscal period ending June 24, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ernest E. Maddock, Senior Vice President, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 22, 2012

/s/ Ernest E. Maddock

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Ernest E. Maddock  
*Senior Vice President, Chief Financial Officer  
and Chief Accounting Officer*

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Lam Research Corporation specifically incorporates it by reference.

**BOARD OF DIRECTORS****James W. Bagley**

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**Stephen G. Newberry**

Vice Chairman

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President and  
Chief Executive Officer

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Association of American Universities

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Chief Financial Officer,  
Broadcom Corporation

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MRC & LBC Partners, LLC

**Youssef A. El-Mansy, Ph.D.**

Vice President,  
Director of Logic Technology Development,  
Intel Corporation (retired)

**Christine A. Heckart**

Chief Marketing Officer,  
ServiceSource

**Grant M. Inman**

General Partner,  
Inman Investment Management

**Catherine P. Lego**

Member,  
Lego Ventures, LLC

**Kim E. Perdikou**

Executive Vice President,  
Office of the Chief Executive Officer,  
Juniper Networks

**Krishna C. Saraswat, Ph.D.**

Rickey/Nielsen Professor,  
School of Engineering,  
Stanford University

**William R. Spivey, Ph.D.**

President and Chief Executive Officer,  
Luminent, Inc. (retired)

**Abhijit Y. Talwalkar**

President and Chief Executive Officer,  
LSI Corporation

**Delbert A. Whitaker**

Senior Vice President,  
Worldwide Analog and Standard Logic,  
Texas Instruments, Inc. (retired)

**EXECUTIVE OFFICERS****Martin B. Anstice**

President and  
Chief Executive Officer

**Timothy M. Archer**

Chief Operating Officer

**Ernest E. Maddock**

Senior Vice President and  
Chief Financial Officer

**Richard A. Gottscho, Ph.D.**

Senior Vice President,  
Global Products

**Sarah A. O'Dowd, Esq.**

Group Vice President,  
Chief Legal Officer

**Stephen G. Newberry**

Vice Chairman



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