LAM RESEARCH CORP
Form 10-Q
March 31, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 23, 2007 or

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

For the transition period from __________ to __________

Commission file number 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

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

4650 Cushing Parkway
Fremont, California 94538
(Address of principal executive offices including zip code)
(510) 572-0200
(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

Yes o No þ

As of March 10, 2008 there were 124,781,047 shares of Registrant s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	December 23, 2007 (unaudited)	June 24, 2007 (1)
ASSETS		
Cash and cash equivalents	$ 776,055	$ 573,967
Short-term investments	93,823	96,724
Accounts receivable, less allowance for doubtful accounts of $3,852 as of December 23, 2007 and $3,851 as of June 24, 2007	441,993	410,013
Inventories	242,216	235,431
Deferred income taxes	62,997	61,727
Prepaid expenses and other current assets	59,108	38,499
Total current assets	1,676,192	1,416,361
Property and equipment, net	133,985	113,725
Restricted cash and investments	403,366	360,038
Deferred income taxes	36,158	27,414
Goodwill	59,741	59,741
Intangible assets, net	66,422	70,909
Other assets	72,300	53,417
Total assets	$ 2,448,164	$ 2,101,605
LIABILITIES AND STOCKHOLDERS EQUITY		
Trade accounts payable	$ 75,131	$ 117,617
Accrued expenses and other current liabilities	350,522	364,296
Deferred profit	143,840	190,885
Total current liabilities	569,493	672,798
Long-term debt	250,000	250,000
Income taxes payable	76,794	
Other long-term liabilities	2,786	2,487
Total liabilities	899,073	925,285
Commitments and contingencies		
Stockholders equity:		
Preferred stock, at par value of $0.001 per share; authorized - 5,000 shares, none outstanding		
Common stock, at par value of $0.001 per share; authorized - 400,000 shares; issued and outstanding - 124,753 shares at December 23, 2007 and 123,535 shares at June 24, 2007	125	124
Additional paid-in capital	1,283,474	1,194,215

Treasury stock, at cost, 34,150 shares at December 23, 2007 and 34,168 shares at June 24, 2007	(1,487,456)	(1,483,169)
Accumulated other comprehensive loss	2,233	(4,302)
Retained earnings	1,750,715	1,469,452
Total stockholders equity	1,549,091	1,176,320
Total liabilities and stockholders equity	$ 2,448,164	$ 2,101,605

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
Total revenue	$ 610,320	$ 633,400	$ 1,294,941	$ 1,237,787
Cost of goods sold	302,659	310,484	643,393	601,707
Gross margin	307,661	322,916	651,548	636,080
Research and development	80,243	69,060	156,531	130,683
Selling, general and administrative	66,084	59,351	135,797	116,059
Total operating expenses	146,327	128,411	292,328	246,742
Operating income	161,334	194,505	359,220	389,338
Other income (expense):	(37)	13,092	7,596	43,440
Income before income taxes	161,297	207,597	366,816	432,778
Income tax expense	46,238	40,271	103,169	81,934
Net income	$ 115,059	$ 167,326	$ 263,647	$ 350,844
Net income per share:				
Basic net income per share	$ 0.92	$ 1.18	$ 2.12	$ 2.47
Diluted net income per share	$ 0.91	$ 1.15	$ 2.08	$ 2.42
Number of shares used in per share calculations:				
Basic	124,685	142,306	124,370	142,120
Diluted	126,653	145,346	126,523	145,102

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended	
	December 23, 2007	December 24, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 263,647	$ 350,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,563	15,287
Deferred income taxes	(10,014)	13,843
Amortization of premiums/discounts on securities	1,552	(1,054)
Equity-based compensation expense	20,615	12,915
Income tax benefit on equity-based compensation plans	57,177	22,239
Excess tax benefit on equity-based compensation plans	(37,639)	(15,350)
Other, net	9,764	(77)
Changes in operating asset accounts	(83,778)	(19,982)
Net cash provided by operating activities	243,887	378,665
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(38,561)	(26,886)
Acquisitions of businesses		(177,108)
Purchases of available-for-sale securities	(101,665)	(638,817)
Sales and maturities of available-for-sale securities	69,780	207,120
Purchase of other investments	(4,560)	
Transfer of restricted cash and investments	(1,074)	55,000
Other	(12,527)	
Net cash used for investing activities	(88,607)	(580,691)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(100)	(50,072)
Excess tax benefit on equity-based compensation plans	37,639	15,350
Treasury stock purchases	(10,225)	(76,333)
Reissuances of treasury stock	7,301	5,990
Proceeds from issuance of common stock	10,106	24,401
Net cash provided by / (used for) financing activities	44,721	(80,664)
Effect of exchange rate changes on cash	2,087	992
Net increase (decrease) in cash and cash equivalents	202,088	(281,698)
Cash and cash equivalents at beginning of period	573,967	910,815

Cash and cash equivalents at end of period	$ 776,055	$ 629,117

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 23, 2007
(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Lam Research Corporation (Lam Research or the Company) for the fiscal year ended June 24, 2007, which are included in the Annual Report on Form 10-K as of and for the year ended June 24, 2007 (the 2007 Form 10-K). The Company s Forms 10-K, Forms 10-Q and Forms 8-K are available online at the Securities and Exchange Commission website on the Internet. The address of that site is http://www.sec.gov. The Company also posts the Forms 10-K, Forms 10-Q and Forms 8-K on the corporate website at http://www.lamresearch.com.

The Company s reporting period is a 52/53-week fiscal year. The Company s current fiscal year will end June 29, 2008 and includes 53 weeks. The quarter ended December 23, 2007 and the quarter ended December 24, 2006 both included 13 weeks.

Reclassifications: Certain amounts presented in the comparative financial statements for prior years have been reclassified to conform to the fiscal year 2008 presentation.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation Number 48, Accounting for Income Tax Uncertainties (FIN 48). FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of June 25, 2007. As a result of the adoption of FIN 48, the Company decreased the recorded liability for unrecognized tax benefits by approximately $26.2 million, and reclassed approximately $64.4 million from current to non-current income taxes payable. The cumulative effect of adopting FIN 48 resulted in an increase to the Company s opening retained earnings in the first quarter of fiscal year 2008 of approximately $17.6 million.

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company expects to adopt SFAS No. 159 beginning June 30, 2008 and is currently evaluating the impact that this pronouncement may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008. The Company expects to adopt SFAS No. 141R in the beginning of fiscal year 2010 and is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on its consolidated results of operations and financial condition.

NOTE 3 EQUITY-BASED COMPENSATION PLANS

The Company has adopted stock plans that provide for the grant to eligible participants of equity-based awards, including stock options and restricted stock units, of Lam Research Common Stock. The Company also has an employee stock purchase plan (ESPP) that allows employees to purchase its Common Stock.

The Company accounts for equity-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which the Company adopted as of June 27, 2005 using the modified prospective method. The Company recognized equity-based compensation expense of $9.8 million and $6.6 million during the three months ended December 23, 2007 and December 24, 2006, respectively. The Company recognized equity-based compensation expense of $20.6 million and $12.9 million during the six months ended December 23, 2007 and December 24, 2006, respectively. The income tax benefit recognized in the condensed consolidated statements of operations related to equity-based compensation expense was $1.3 million and $1.0 million during the three months ended December 23, 2007 and December 24, 2006, respectively. The income tax benefit recognized in the condensed consolidated statements of operations related to equity-based compensation expense was $2.9 million and $2.1 million during the six months ended December 23, 2007 and December 24, 2006, respectively. 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 for awards granted after the adoption of SFAS No. 123R and on a graded vesting basis for awards granted prior to the adoption of SFAS No. 123R.

Stock Options and Restricted Stock Units

The 2007 Stock Incentive Plan provides for the grant of non-qualified equity-based awards to eligible participants. Additional shares are reserved for issuance pursuant to awards previously granted under the Company s 1997 Stock Incentive Plan and its 1999 Stock Option Plan. As of December 23, 2007, there were a total of 20,642,247 shares reserved and available for future issuance under the 1997, 1999, and 2007 Plans (Plans).

The Company did not grant any stock options during the three and six months ended December 23, 2007 and December 24, 2006.

A summary of stock option activity under the Plans as of December 23, 2007 and changes during the six months then ended is presented below:

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value as of December 23, 2007 (in thousands)
Outstanding at June 24, 2007	3,285	$ 20.37	2.58	
Granted				
Exercised	(483)	19.79		
Forfeited or expired	(11)	20.73		
Outstanding at December 23, 2007	2,791	$ 20.55	2.09	$ 66,879
Exercisable at December 23, 2007	2,677	$ 20.48	2.03	$ 64,360

The total intrinsic value of options exercised during the three and six months ended December 23, 2007 was $6.7 million and $18.6 million, respectively. The total intrinsic value of options exercised during the three and six months ended December 24, 2006 was $36.4 million and $39.1 million, respectively. As of December 23, 2007, there was $0.1 million of total unrecognized compensation cost related to nonvested stock options granted and outstanding;

that cost is expected to be recognized through fiscal year 2009, with a weighted average remaining period of 0.5 years. Cash received from stock option exercises was $3.4 million and $10.1 million during the three and six months ended December 23, 2007, respectively. Cash received from stock option exercises was $22.7 million and $24.4 million during the three and six months ended December 24, 2006, respectively.

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A summary of the status of the Company s restricted stock units as of December 23, 2007, and changes during the six months then ended is presented below:

Nonvested Restricted Stock Units	Shares (in thousands)	Average Grant-Date Fair Value
Nonvested at June 24, 2007	1,844	$43.14
Granted	58	53.81
Vested	(692)	31.51
Forfeited	(37)	47.95
Nonvested at December 23, 2007	1,173	$50.38

The fair value of the Company s restricted stock units was calculated based upon the fair market value of the Company s stock at the date of grant. As of December 23, 2007, there was $31.2 million of total unrecognized compensation cost related to nonvested restricted stock units granted; that cost is expected to be recognized over a weighted average remaining period of 0.7 years.

ESPP

The 1999 Employee Stock Purchase Plan (the 1999 ESPP) allows employees to designate a portion of their base compensation to be used to purchase the Company s Common Stock at a purchase price per share of the lower of 85% of the fair market value of the Company s Common Stock on the first or last day of the applicable offering period. Typically, each offering period lasts 12 months and comprises three interim purchase dates. As of December 23, 2007, there were a total of 4,549,353 shares available for issuance under the 1999 ESPP.

ESPP awards were valued using the Black-Scholes model with expected volatility calculated using implied volatility. ESPP awards were valued assuming no expected dividends and the following weighted-average assumptions for the six months ended December 23, 2007:

Expected life (years)	0.70
Expected stock price volatility	42.2%
Risk-free interest rate	4.1%

As of December 23, 2007, there was $5.7 million of total unrecognized compensation cost related to the ESPP that is expected to be recognized over a remaining period of 0.7 years.

NOTE 4 INVENTORIES

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

	December 23, 2007	June 24, 2007
	(in thousands)	
Raw materials	$ 132,375	$ 122,530
Work-in-process	42,581	43,935
Finished goods	67,260	68,966
	$ 242,216	$ 235,431

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NOTE 5 PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	December 23, 2007	June 24, 2007
	(in thousands)	
Manufacturing, engineering and office equipment	$ 193,391	$ 168,267
Computer equipment and software	68,586	66,919
Land	1,626	1,626
Buildings	11,189	9,051
Leasehold improvements	43,568	42,837
Furniture and fixtures	10,343	9,712
	328,703	298,412
Less: accumulated depreciation and amortization	(194,718)	(184,687)
	$ 133,985	$ 113,725

NOTE 6 ACQUISITION

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

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

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

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

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

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

Cash consideration	$ 173,893
Transaction costs	3,215
	$ 177,108
Inventories	$ 12,656
Property and equipment, net	32,696
Prepaid expenses and other current assets	4,392
Other assets	5,731
Accrued expenses and other current liabilities	(42)
Customer relationships	35,226
Other intangible assets	30,193
Goodwill	56,256
	$ 177,108

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

Goodwill

Total goodwill as of December 23, 2007 was $59.7 million and primarily consistent of goodwill recorded as a result of the Bullen Ultrasonics transaction of $56.3 million. Goodwill is tax deductible.

Intangible Assets

The following table provides details of the Company s intangible assets subject to amortization as of December 23, 2007 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Weighted-Average Useful Life (years)
Customer relationships	$ 35,226	$ (5,889)	$ 29,337	6.9
Other intangible assets	30,193	(6,997)	23,196	4.6
Patents	17,710	(3,821)	13,889	7.4
	$ 83,129	$ (16,707)	$ 66,422	6.2

The following table provides details of the Company s intangible assets subject to amortization as of June 24, 2007 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Weighted-Average Useful Life (years)
Customer relationships	$ 35,226	$ (3,276)	$ 31,950	6.9
Other intangible assets	30,193	(3,556)	26,637	4.6
Patents	15,000	(2,678)	12,322	7.0

	$ 80,419	$ (9,510)	$ 70,909	6.1

The Company recognized $3.6 million and $7.2 million in intangible asset amortization expense during the three and six months ended December 23, 2007, respectively. The Company recognized $1.3 million and $2.0 million in intangible asset amortization expense during the three and six months ended December 24, 2006, respectively.

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

The estimated future amortization expense of purchased intangible assets as of December 23, 2007 is as follows (in thousands):

Fiscal Year	Amount
remainder of 2008	7,268
2009	14,366
2010	14,266
2011	11,285
2012	8,274
Thereafter	10,963
	$ 66,422

NOTE 8 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 23, 2007	June 24, 2007
	(in thousands)	
Accrued compensation	$ 189,065	$ 157,088
Warranty reserves	51,780	52,186
Income and other taxes payable	48,659	97,662
Other	61,018	57,360
	$ 350,522	$ 364,296

NOTE 9 OTHER INCOME (EXPENSE), NET

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

	Three Months Ended		Six Months Ended	
	December 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands)		(in thousands)	
Interest income	$ 14,685	$ 20,440	$ 27,972	$ 39,809
Interest expense	(3,357)	(5,000)	(6,793)	(10,160)
Foreign exchange losses	(10,823)	(2,437)	(12,190)	(2,106)
Favorable legal judgment				15,834
Charitable contributions	(408)		(908)	

Other, net	(134)	89	(485)	63
	$ (37)	$ 13,092	$ 7,596	$ 43,440

Included in foreign exchange losses during the three and six months ended December 23, 2007 is an unrealized loss, related to the change in fair value of $7.2 million on the Company s hedge of the Swiss franc related to the Company s acquisition of SEZ Holding AG which closed on March 11, 2008. The legal judgment of $15.8 million during the six months ended December 24, 2006 was obtained in a lawsuit filed by the Company alleging breach of purchase order contracts by one of its customers. The Supreme Court of California denied review of lower and appellate court judgments in favor of Lam Research during the quarter ended September 24, 2006.

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NOTE 10 INCOME TAX EXPENSE

The Company s estimated effective tax rate for the three and six months ended December 23, 2007 was approximately 28.7% and 28.1%, respectively. These rates differ from the statutory rate due to the geographical mix of income in jurisdictions with lower tax rates, the application of certain foreign tax rulings as well as the federal research tax credit which expired on December 31, 2007. Currently, Congress is discussing the extension and/or revision of the federal research tax credit, and no new law has been passed to date.

Effective at the beginning of the first quarter of fiscal 2008, the Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. 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 is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

As a result of the adoption of FIN 48, the Company decreased the recorded liability for unrecognized tax benefits by approximately $26.2 million, and reclassed approximately $64.4 million from current to non-current income taxes payable. The cumulative effect of adopting FIN 48 resulted in an increase to the Company s opening retained earnings in the first quarter of fiscal year 2008 of approximately $17.6 million. As of the adoption date, the Company s total gross unrecognized tax benefits were $119.2 million, of which $92.8 million, if recognized, would affect the effective tax rate.

During the first and second quarters of 2008, there was an increase of $8.3 and $6.5 million, respectively, relating to the Company s unrecognized tax benefits for positions taken in the current year. The total amount of gross unrecognized tax benefits was $127.5 and $134.0 million as of September 23, 2007 and December 23, 2007, respectively. The gross unrecognized tax benefits that, if recognized, would affect the effective tax rate were $99.2 and $104.1 million as of September 23, 2007 and December 23, 2007, respectively.

The Company s policy to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the condensed consolidated statements of operations did not change as a result of implementing the provisions of FIN 48. As of the adoption date of FIN 48, the Company had accrued approximately $5.8 million for the payment of interest and penalties (net of tax benefit) relating to unrecognized tax benefits. As of September 23, 2007 and December 23, 2007, the Company has accrued interest and penalties related to unrecognized tax benefits of approximately $6.5 million and $7.3 million (net of tax benefit), respectively.

The Company does not anticipate that the total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations in the next 12 months.

The Company files U.S. federal, U.S. state, and foreign income tax returns. As of the date of adoption of FIN 48, tax years 2000-2007 remain subject to examination in the U.S., and tax years 2002-2007 remain subject to examination in various foreign jurisdictions.

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NOTE 11 NET INCOME PER SHARE

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

	Three Months Ended		Six Months Ended	
	December 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands, except per share data)			
Numerator:				
Net income	$ 115,059	$ 167,326	$ 263,647	$ 350,844
Denominator:				
Basic average shares outstanding	124,685	142,306	124,370	142,120
Effect of potential dilutive securities:				
Employee stock plans	1,968	3,040	2,153	2,982
Diluted average shares outstanding	126,653	145,346	126,523	145,102
Net income per share Basic	$ 0.92	$ 1.18	$ 2.12	$ 2.47
Net income per share Diluted	$ 0.91	$ 1.15	$ 2.08	$ 2.42

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

	Three Months Ended		Six Months Ended	
	December 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands)			
Number of potential dilutive securities excluded	48	39	37	153

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NOTE 12 COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three Months Ended		Six Months Ended	
	December 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands)			
Net income	$ 115,059	$ 167,326	$ 263,647	$ 350,844
Foreign currency translation adjustment	2,745	2,144	5,187	2,009
Unrealized gain (loss) on fair value of derivative financial instruments, net	4,106	(906)	(2,004)	1,712
Unrealized gain (loss) on financial instruments, net	1,206	(1,104)	2,624	1,090
Reclassification adjustment for loss (gain) included in earnings	1,226	(551)	694	(506)
Other	17		34	
Comprehensive income	$ 124,359	$ 166,909	$ 270,182	$ 355,149

The balance of accumulated other comprehensive income (loss) is as follows:

	December 23, 2007	June 24, 2007
	(in thousands)	
Accumulated foreign currency translation adjustment	$ (758)	$ (5,945)
Accumulated unrealized gain on derivative financial instruments	2,404	3,694
Accumulated unrealized gain (loss) on financial instruments	1,347	(1,257)
SFAS No. 158 adjustment postretirement benefit plan	(760)	(794)
Accumulated other comprehensive income (loss)	$ 2,233	$ (4,302)

NOTE 13 GUARANTEES

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

On December 18, 2007, the Company entered into a series of two operating leases (the Livermore Leases) regarding certain improved properties in Livermore, California. 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. Each of the Operating Leases is an off-balance sheet arrangement.

The Operating Leases (and associated documents for each Operating Lease) were entered into by the Company and BNP Paribas Leasing Corporation (BNPPLC).

Each Livermore Lease facility has an approximately seven-year term (inclusive of an initial construction period during which BNPPLC s and the Company s obligations will be governed by the Construction Agreement entered into

with regard to such Livermore Lease facility) ending on the first business day in January, 2015. Total scheduled rent payments under the Livermore Leases are estimated to be approximately $25.7 million over the lease term in the aggregate (based on one-month LIBOR rates at the time of entering into the leases), following completion of improvements to each property.

Each New Fremont Lease has an approximately seven-year term ending on the first business day in January, 2015. Total scheduled rent payments under the New Fremont Leases are approximately $32.4 million over the lease term in the aggregate (based upon three-month LIBOR rates at the time of entering into leases).

Under each Operating Lease, 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 prepay the amount of BNPPLC s investment in the property and any accrued but unpaid rent. Any such amount may also include an additional make-whole amount for early redemption of the outstanding investment, which will vary depending on prevailing interest rates at the time of prepayment.

The Company is required, pursuant to the terms of the Operating Leases and associated documents, to maintain collateral in an aggregate of approximately $165.0 million (upon completion of the Livermore construction) in separate interest-bearing accounts and/or eligible short-term investments with BNPPLC (or a third party, currently State Street Bank and Trust, with regard to the Livermore Leases) as security for the Company s obligations under the Operating Leases.

Upon expiration of the term of an Operating Lease, the property subject to that Operating Lease may be remarketed. The Company has guaranteed to BNPPLC that each property will have a certain minimum residual value, as set forth in the applicable Operating Lease. The aggregate guarantee made by the Company under the Operating Leases is no more than approximately $141.8 million (although, under certain default circumstances, the guarantee with regard to an Operating Lease may be 100% of BNPPLC s investment in the applicable property; in the aggregate, the amounts payable under such guarantees will be no more than $165.0 million plus related indemnification or other obligations).

Under each Operating Lease and its associated documents, the Company is subject to a financial covenant requiring it to maintain unrestricted cash, unencumbered cash investments, and unencumbered marketable securities of at least $300.0 million (not including the collateral maintained as security for the Company s obligations under the Operating Leases).

The Operating Leases are subject to customary default provisions, including, without limitation, those relating to payment defaults under the Operating Leases and associated documents, payment defaults under other indebtedness of the Company, performance defaults under the Operating Leases (including cross-defaults between each of the Operating Leases), and events of bankruptcy. In the event that such defaults occur and are continuing, BNPPLC may accelerate repayment of a portion or all of its investment under the applicable Operating Leases; alternatively, BNPPLC may require the Company to pay all amounts due under one or more Operating Leases through the end of the term of the applicable Operating Leases. As of December 23, 2007, the Company had $128.4 million recorded as restricted cash and investments in its Condensed Consolidated Balance Sheet as collateral required under the lease agreements. The lessor under the lease agreements is a substantive independent leasing company that does not have the characteristics of a variable interest entity (VIE) as defined by FASB Interpretation No. 46, Consolidation of Variable Interest Entities and is therefore not consolidated by the Company.

The Company s contractual cash obligations and commitments relating to these agreements and its existing debt under the LRI Credit Agreement are as follows:

	Operating Leases	Long-term Debt (in thousands)	Total
Payments due by period:			
One year	$ 13,240	$	$ 13,240
Two years	11,076		11,076
Three years	11,224		11,224
Four years	10,006	250,000	260,006
Five years	9,410		9,410
Over 5 years	160,644		160,644

Total	$ 215,600	$ 250,000	$ 465,600

Included in the operating leases more than 5 years section of the table above is $141.8 million in guaranteed residual values for lease agreements relating to the Fremont and Livermore properties described above.

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 which may limit its exposure to such indemnifications. As of December 23, 2007, the Company has not recorded any liability on its financial statements in connection with these indemnifications, as it does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

On June 16, 2006, the Company s wholly-owned subsidiary, Lam Research International SARL (LRI), as borrower, entered into a $350 million Credit Agreement (the LRI Credit Agreement). In connection with the LRI Credit Agreement, the Company entered into a Guarantee Agreement (the Guarantee Agreement) guaranteeing the obligations of LRI under the LRI Credit Agreement. The Company s obligations under the Guarantee Agreement are collateralized by readily marketable securities in an amount equal to 110% of the outstanding balance of its obligations under the Guarantee Agreement, representing $275.0 million at December 23, 2007. This collateral is reflected in the balance of restricted cash and investments in the Company s Condensed Consolidated Balance Sheet. Please see Note 16 Subsequent Events below for information regarding termination of the LRI Credit Agreement and the Guarantee Agreement, the Company s entry into a new credit agreement, and the entry of the Company s wholly-owned subsidiary Bullen Semiconductor Corporation into a new guarantee agreement with respect to the new credit agreement.

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

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

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

	Three Months Ended		Six Months Ended	
	December 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands)			
Balance at beginning of period	$ 51,635	$ 46,947	$ 52,186	$ 40,122
Warranties issued during the period	13,774	15,329	28,406	33,046
Settlements made during the period	(13,462)	(10,384)	(29,206)	(19,383)
Expirations and change in liability for pre-existing warranties during the period	(167)	(431)	394	(2,324)
Balance at end of period	$ 51,780	$ 51,461	$ 51,780	$ 51,461

NOTE 14 DERIVATIVE INSTRUMENTS AND HEDGING

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

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

Each period, hedges are tested for effectiveness using regression testing. There were no gains or losses during the three and six months ended December 23, 2007 and December 24, 2006 associated with ineffectiveness or forecasted transactions that failed to occur. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to the derivative instrument and the hedged item. These include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedging instrument s effectiveness in offsetting the exposure to changes in the hedged item s fair value or cash flows will be measured.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. When derivative instruments are designated and qualify as effective cash flow hedges, the Company is able to defer changes in the fair value of the hedging instrument within accumulated other comprehensive income (loss) until the hedged exposure is realized. Consequently, with the exception of hedge ineffectiveness recognized, the Company s results of operations are not subject to fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that the underlying hedged forecasted transactions would occur, the Company may not be able to account for its investments in derivative instruments as cash flow hedges. If this were to occur, future changes in the fair values of the Company s derivative instruments would be recognized in earnings without the benefits of offsets or deferrals of changes in fair value arising from hedge accounting treatment. At December 23, 2007, the Company expects to reclassify the entire amount of $2.4 million of gains accumulated in other comprehensive income to earnings during the next 12 months due to the recognition in

earnings of the hedged forecasted transactions.

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

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In December 2007, the Company purchased a call option with a notional amount of approximately CHF 641 million to hedge the currency exposure in connection with the anticipated purchase of the shares of SEZ as noted below. The call option premium cost was $10.3 million. The mark-to-market for the fair value of the call option as of December 23, 2007 was $3.1 million resulting in a $7.2 million unrealized loss recorded in other income (expense), net in the Company s condensed consolidated statements of operations for the quarter ended December 23, 2007.

NOTE 15 CONTINGENCIES

As a result of the determinations from a voluntary independent stock option review, the Company considered the application of Section 409A of the IRC to certain stock option grants where, under APB No. 25, intrinsic value existed at the time of grant. In the event such stock option grants are not considered as issued at fair market value at the original grant date under the IRC and applicable regulations thereunder, these options are subject to Section 409A. On March 30, 2008, the Board of Directors of the Company authorized the Company to assume the liability of any and all employees, including the Company s Chief Executive Officer and certain executive officers, with options subject to Section 409A. The liability is currently estimated to be in the range of approximately $50 million to $55 million. The determinations from the voluntary independent stock option review are more fully described in Note 3, Restatement of Consolidated Financial Statements to Consolidated Financial Statements in Item 8 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Company s 2007 Form 10-K.

NOTE 16 SUBSEQUENT EVENTS

SEZ Transaction: On March 11, 2008, the Company completed the tender offer for the outstanding shares of SEZ Holding AG (SEZ), the leading supplier of single-wafer clean technology and products to the global semiconductor manufacturing industry. Upon the completion of the tender, the Company acquired approximately 94% of the outstanding shares of SEZ. The Company expects to take additional steps as necessary to acquire the SEZ shares that remain outstanding.

The tender offer was conducted pursuant to the terms of a Transaction Agreement entered into on December 10, 2007 by and between the Company and SEZ (the Transaction Agreement). Under the terms of the Transaction Agreement, the Company acquired all shares of SEZ that were tendered in the offer at a price of CHF 38 per share in cash, for a total price of CHF 606 million, which approximated US$584 million.

In December 2007, the Company purchased a call option with a notional amount of approximately CHF 641 million to hedge the currency exposure in connection with the anticipated purchase of the shares of SEZ as noted above. The call option premium cost was $10.3 million. The mark-to-market for the fair value of the call option as of December 23, 2007 was $3.1 million resulting in a $7.2 million unrealized loss recorded in other income (expense), net in the Company s condensed consolidated statements of operations for the quarter ended December 23, 2007. In February 2008 the Company extended the expiration date of the call option at an additional premium cost of $2.4 million. The Company exercised the call option during March 2008 which resulted in a gain of $40.7 million which the Company will record in other income (expense), net in its condensed consolidated statements of operations for the quarter ending March 30, 2008.

Credit Agreement: On March 3, 2008, the Company, as borrower, entered into a Credit Agreement, dated as of March 3, 2008 (the Credit Agreement) with ABN AMRO BANK N.V (the Agent), as administrative agent for the lenders party to the Credit Agreement, and such lenders. Bullen Semiconductor Corporation, a wholly-owned domestic subsidiary of the Company (Bullen), entered into a guarantee (the Bullen Guarantee) to guarantee the obligations of the Company under the Credit Agreement. In connection with the Credit Agreement, the Company and Bullen entered into certain collateral documents (collectively, the Collateral Documents) including a Security Agreement by the Company (the Security Agreement), a Security Agreement by Bullen (the Bullen Security Agreement), a Pledge Agreement by the Company (the Pledge Agreement) and other Collateral Documents to secure the Company s obligations under the Credit Agreement. The Collateral Documents encumber current and future accounts receivables, inventory, equipment and related assets of the Company and Bullen, as well as 100% of the Company s ownership interest in Bullen and 65% of the Company s ownership interest in Lam Research International BV, a wholly-owned subsidiary of the Company. In addition, any future domestic subsidiaries of the Company will also enter into a similar guarantee and collateral documents to encumber the foregoing type of assets.

Under the Credit Agreement, the Company borrowed $250 million in principal amount for general corporate purposes. The loan under the Credit Agreement is a non-revolving term loan with the following repayment terms: (a) $12.5 million of the principal amount due on each of (i) September 30, 2008, (ii) March 31, 2009 and (iii) September 30, 2009 and (b) the payment of the remaining principal amount on March 6, 2010. The outstanding principal amount bears interest at LIBOR plus 0.75% per annum or, alternatively, at the Agent s prime rate. The Company may prepay the loan under the Credit Agreement in whole or in part at any time without penalty. The Credit Agreement contains customary representations, warranties, affirmative covenants and events of default, as well as various negative covenants (including maximum leverage ratio, minimum liquidity and minimum EBITDA).

As a condition to funding under the Credit Agreement, the outstanding balance ($250 million) under the LRI Credit Agreement was repaid in full. LRI is our wholly-owned subsidiary. In addition, the Guarantee Agreement was also terminated. Our obligations under the Guarantee Agreement were fully collateralized by cash and cash equivalents.

Section 409A: As a result of the determinations from a voluntary independent stock option review, the Company considered the application of Section 409A of the IRC to certain stock option grants where, under APB No. 25, intrinsic value existed at the time of grant. In the event such stock option grants are not considered as issued at fair market value at the original grant date under the IRC and applicable regulations thereunder, these options are subject to Section 409A. On March 30, 2008, the Board of Directors of the Company authorized the Company to assume the liability of any and all employees, including the Company s Chief Executive Officer and certain executive officers, with options subject to Section 409A. The liability is currently estimated to be in the range of approximately $50 million to $55 million. The determinations from the voluntary independent stock option review are more fully described in Note 3, Restatement of Consolidated Financial Statements to Consolidated Financial Statements in Item 8 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Company s 2007 Form 10-K.

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

With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Certain, but not all, of the forward-looking statements in this report are specifically identified. The identification of certain statements as forward-looking is not intended to mean that other statements not specifically identified are not forward-looking. Forward-looking statements include, but are not limited to, statements that relate to our future revenue, product development, demand, acceptance and market share, competitiveness, gross margins, levels of research and development (R&D), outsourcing plans and operating expenses, tax expenses, our management s plans and objectives for our current and future operations, management s plans for repurchasing Company stock pursuant to the authorization of our Board, the levels of customer spending or R&D activities, general economic conditions, our ability to scale up our operations to meet increased customer demand and to efficiently integrate and manage our new silicon growing and fabrication assets following completion of its acquisition, and the sufficiency of financial resources to support future operations, and capital expenditures. Such statements are based on current expectations and are subject to risks, uncertainties, and changes in condition, significance, value and effect, including, but not limited to, those discussed below under the heading Risk Factors within Item 1A of this report and other documents we file from time to time with the Securities and Exchange Commission (SEC), such as our 2007 Form 10-K, our quarterly reports on Form 10-Q , and our current reports on Form 8-K . Such risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed herein and in ways not readily foreseeable. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are based on information currently and reasonably known to us. We undertake no obligation to release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances which occur after the date hereof or to reflect the occurrence or effect of anticipated or unanticipated events.

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

For a full understanding of our financial position and results of operations for the three and six months ended December 23, 2007, this discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes presented in this Form 10-Q and the financial statements and notes in our 2007 Form 10-K and Form 10-Q for the quarter ended September 23, 2007.

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Today s leading indicators of changes in customer investment patterns may not be any more reliable than in prior years. Demand for our equipment can vary significantly from period to period as a result of various factors, including, but not limited to, economic conditions, supply, demand, and prices for semiconductors, customer capacity requirements, and our ability to develop and market competitive products. For these and other reasons, our results of operations for the three and six months ended December 23, 2007 may not necessarily be indicative of future operating results.

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

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

Results of Operations provides an analysis of operating results

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

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

Subsequent Events discusses events impacting our operations that have occurred after December 23, 2007.

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EXECUTIVE SUMMARY

We design, manufacture, market, 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. Semiconductor wafers are subjected to a complex series of process steps that result in the simultaneous creation of many individual integrated circuits. We leverage our expertise in these areas to develop integrated processing solutions which typically benefit our customers through reduced cost, lower defect rates, enhanced yields, or faster processing time.

The following summarizes certain key quarterly financial information for the periods indicated below (in thousands, except percentages and per share amounts):

	Three Months Ended		
	December 23, 2007	September 23, 2007	December 24, 2006
Revenue	$610,320	$684,621	$633,400
Gross margin	307,661	343,887	322,916
Gross margin as a percent of total revenue	50.4%	50.2%	51.0%
Net income	115,059	148,588	167,326
Diluted net earnings per share	$ 0.91	$ 1.18	$ 1.15

December 2007 quarter revenues were lower sequentially but exceeded our expectations.

Gross margin as a percentage of revenues for the December 2007 quarter was 50.4% and slightly exceeded our expectations and performance during the September 2007 quarter.

Equity-based compensation expense recognized during the December 2007 quarter in cost of goods sold and operating expenses was $2.0 million and $7.8 million, respectively.

Operating income as a percentage of revenues for the December 2007 quarter was 26.4% and slightly exceeded expectations.

RESULTS OF OPERATIONS

Shipments

	Three Months Ended	
	December 23, 2007	September 23, 2007
Shipments (in millions)	$593	$ 621
North America	17%	18%
Europe	13%	7%
Asia Pacific	32%	38%
Korea	19%	20%
Japan	19%	17%

Shipments for the December 2007 quarter slightly exceeded our anticipated range and decreased 4% sequentially. We believe the trend in shipments reflects a reduction of shipments to memory customers that was consistent with our expectations. During the December 2007 quarter, 300 millimeter applications represented approximately 85% of total etch system shipments and 90% of total etch system shipments were for applications at less than or equal to the 90 nanometer technology node. We classify total etch systems shipments market segmentation for the December quarter as Memory at approximately 80%, Logic/Other at 14% and Foundry at 6%.

Revenue

	Three Months Ended			Six Months Ended	
	December 23, 2007	September 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
Revenue (in thousands)	$610,320	$684,621	$633,400	$1,294,941	$1,237,787
North America	18%	17%	17%	18%	16%
Europe	12%	9%	10%	10%	11%
Asia Pacific	30%	35%	37%	33%	38%
Korea	17%	25%	20%	21%	18%
Japan	23%	14%	16%	18%	17%

Revenue for the December 2007 quarter exceeded our expectations but decreased 11% sequentially and 4% year over year. The decrease in revenues sequentially and year over year is affected by the amounts of previously reported new orders, shipments and our acceptance timelines. The overall Asia region continues to account for a significant portion of our revenues as a substantial amount of the worldwide capacity additions for semiconductor manufacturing continues to occur in this region. The sequential decline in revenue during the December 2007 quarter primarily occurred in Korea, Asia Pacific, and North America, partially offset by increases in Japan and Europe. Our deferred revenue balance decreased to $229.6 million as of December 23, 2007 compared to $295.5 million at June 24, 2007. The anticipated future revenue value of orders shipped from backlog to Japanese customers that are not recorded as deferred revenue was approximately $41 million as of December 23, 2007 and approximately $51 million as of June 24, 2007; these shipments are classified as inventory at cost until title transfers.

Gross Margin

	Three Months Ended			Six Months Ended	
	December 23, 2007	September 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands, except percentages)				
Gross Margin	$307,661	$343,887	$322,916	$651,548	$636,080
Percent of total revenue	50.4%	50.2%	51.0%	50.3%	51.4%

Gross margin as a percentage of revenue for the December 2007 quarter was 50.4% and slightly exceeded our expectations and performance during the September 2007 quarter. The decrease in gross margin as a percentage of revenue for the three and six months ended December 23, 2007 compared with the same periods in the prior year was primarily due to lower factory and field resource utilization partially offset by improved customer/product mix.

Research and Development

	Three Months Ended			Six Months Ended	
	December 23, 2007	September 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands, except percentages)				
Research & Development (R&D)	$80,243	$ 76,288	$69,060	$156,531	$130,683
Percent of total revenue	13.1%	11.1%	10.9%	12.1%	10.6%

We continue to invest significantly in research and development focused on leading-edge plasma etch and new products, including single wafer clean. The increase in R&D expenses during the December 2007 quarter compared to the September 2007 quarter is related to an increase of nearly $5 million in engineering material supplies. The growth

in R&D expenses during the three months ended December 23, 2007 compared with the same period in the prior year reflects our planned investment level and includes an increase of approximately $6 million in engineering material supplies and outside services targeting etch and new product growth opportunities, approximately $4 million in increased salary and benefit costs for planned increases in headcount and employee base compensation and approximately $1 million in equity-based compensation. The increase in R&D expenses during the six months ended December 23, 2007 compared with the same period in the prior year reflects our planned investment level and includes an increase of approximately $11 million in engineering material supplies and outside services which are targeted at our continuing support of our existing and new product growth opportunities, nearly $8 million in salaries and benefits due to planned increases in headcount and employee base compensation, and additional equity-based compensation of approximately $3 million.

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Selling, General and Administrative

	Three Months Ended			Six Months Ended	
	December 23, 2007	September 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands, except percentages)				
Selling, General & Administrative (SG&A)	$66,084	$69,713	$59,351	$135,797	$116,059
Percent of total revenue	10.8%	10.2%	9.4%	10.5%	9.4%

The decrease in SG&A expenses during the December 2007 quarter compared to the September 2007 quarter included a decrease in incentive-based compensation of approximately $6 million due to lower profit levels and an increase of approximately $3 million in legal and accounting costs incurred as a result of the voluntary stock option review. SG&A expenses increased during the three months ended December 23, 2007 compared with the same period in the prior year due to the inclusion of approximately $6 million in legal and accounting costs incurred as a result of the voluntary stock option review, growth in salary and benefit costs of nearly $3 million for planned increases in employee headcount and employee base compensation and were partially offset by a decrease of approximately $2 million for incentive-based compensation due to lower profit levels. The increase in SG&A expenses during the six month period ended December 23, 2007 compared to the same period in the prior year is primarily related to growth in salary and benefit costs of nearly $8 million for planned increases in headcount and employee base compensation, an increase of $9 million in legal and accounting costs incurred as a result of the voluntary stock option review, and an increase in equity based compensation of approximately $3 million.

Other Income (Expense), net

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

	Three Months Ended			Six Months Ended	
	December 23, 2007	September 23, 2007	December 24, 2006	December 23, 2007	December 24, 2006
	(in thousands)				
Interest income	$ 14,685	$ 13,287	$ 20,440	$ 27,972	$ 39,809
Interest expense	(3,357)	(3,436)	(5,000)	(6,793)	(10,160)
Foreign exchange gain (loss)	(10,823)	(1,367)	(2,437)	(12,190)	(2,106)
Charitable contributions	(408)	(500)		(908)	
Favorable legal judgment					15,834
Other, net	(134)	(351)	89	(485)	63
	$ (37)	$ 7,633	$ 13,092	$ 7,596	$ 43,440

The increase in interest income of $1.4 million during the quarter ended December 23, 2007 as compared with the quarter ended September 23, 2007 was primarily due to increases in our average balances of cash and cash equivalents, short-term investments, and restricted cash and investments. Interest income decreased by $11.8 million during the six months ended December 23, 2007 as compared with the six months ended December 24, 2006 as the average balances of cash and cash equivalents, short-term investments, and restricted cash and investments were lower as a result of the share repurchase activity of which approximately $768 million occurred during the June 2007 quarter.

The decrease in interest expense during the six months ended December 23, 2007 as compared with the six months ended December 24, 2006 was primarily due to a $100 million repayment on our long-term debt during the December and March quarters of fiscal year 2007 and to a lesser extent decreases in interest rates. The balance of our long-term

debt was $250 million as of December 23, 2007.

Included in foreign exchange losses during the three and six months ended December 23, 2007 is an unrealized loss, related to the change in fair value, of $7.2 million on the Company s hedge of the Swiss franc related to the Company s acquisition of SEZ Holding AG which closed on March 11, 2008. The remaining foreign exchange losses are primarily related to foreign currency exchange rate fluctuations on our foreign currency denominated liabilities with non-U.S. dollar functional subsidiaries. The foreign exchange losses during the three and six months ended December 23, 2007 were primarily due to the weakening of the U.S. dollar against certain currencies, mainly the Taiwan Dollar and Euro. A description of our exposure to foreign currency exchange rates can be found in the Risk Factors section of this Form 10-Q under the heading Our future Success Depends on International Sales and Management of Global Operations.

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

Income Tax Expense

Our effective tax rates for the three and six months ended December 23, 2007 were 28.7% and 28.1% respectively, which included a discrete benefit related primarily to adjustments for previously estimated tax liabilities upon the filing of certain foreign income tax returns. Our effective tax rates for the three and six months ended December 24, 2006 was 19.4% and 18.9%, respectively. On December 20, 2006, the Tax relief and Health Care Act of 2006 was signed into law, extending the research credit for eligible amounts paid or incurred in 2006 and 2007. As a result, during the quarter ended December 24, 2006, we recorded a $4.8 million tax benefit related to the extension of the federal research credit as it pertains to the Company s fiscal year 2006. We also recorded the following discrete events during the September quarter: (1) we recognized a tax benefit of $39.5 million from the reversal of tax reserves and an increase in net operating loss carryforwards upon finalized negotiations on certain transfer pricing items, and (2) we recorded tax expense of $29.5 million related to the application of foreign tax rulings. The overall change in the effective tax rate in all periods is impacted by the jurisdictional mix of income.

The increase in the effective tax rate is primarily due to a decrease in the proportion of income in low tax jurisdictions, the application of certain foreign tax rulings, as well as the expiration of the federal research tax credit which expired on December 31, 2007. Currently, Congress is discussing the extension and/or revision of the federal research tax credit, and no new law has been passed to date.

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

Deferred Income Taxes

We had gross deferred tax assets, related primarily to reserves and accruals that are not currently deductible and tax credit carryforwards of $133.4 million and $123.3 million as of December 23, 2007 and June 24, 2007, respectively. The gross deferred tax assets were offset by deferred tax liabilities of $34.2 million as of December 23, 2007 and June 24, 2007.

Deferred tax assets increased from June 24, 2007 to December 23, 2007 by $10.0 million primarily due to the adoption of FIN 48, adjustments for previously estimated tax liabilities upon the filing of income tax returns in various jurisdictions and the impact of certain elections related to foreign tax rulings. Realization of our net deferred tax assets is dependent on future taxable income. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, then the previously provided valuation allowance would be reversed. We continue to evaluate the realizability of our deferred tax assets quarterly and will assess the need for additional valuation allowances, if any, in subsequent quarters.

Contingencies

As a result of the determinations from a voluntary independent stock option review, the Company considered the application of Section 409A of the IRC to certain stock option grants where, under APB No. 25, intrinsic value existed at the time of grant. In the event such stock option grants are not considered as issued at fair market value at the original grant date under the IRC and applicable regulations thereunder, these options are subject to Section 409A. On March 30, 2008, the Board of Directors of the Company authorized the Company to assume the liability of any and all employees, including the Company s Chief Executive Officer and certain executive officers, with options subject to Section 409A. The liability is currently estimated to be in the range of approximately $50 million to $55 million. The determinations from the voluntary independent stock option review are more fully described in Note 3, Restatement of

Consolidated Financial Statements to Consolidated Financial Statements in Item 8 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Company s 2007 Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue Recognition: We recognize all revenue when persuasive evidence of an arrangement exists, delivery has occurred and title has passed or services have been rendered, the selling price is fixed or determinable, collection of the receivable is reasonably assured, and we have completed our system installation obligations, received customer acceptance or are otherwise released from our installation or customer acceptance obligations. In the event that terms of the sale provide for a lapsing customer acceptance period, we recognize revenue upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. In

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

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

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

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

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

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

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

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

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

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

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

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

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax issue is highly judgmental. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial condition.

In July 2006, the FASB issued FASB Interpretation 48, *Accounting for Income Tax Uncertainties* (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as *more-likely-than-not* to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties.

We adopted FIN 48 in the first quarter of 2008. See Note 10: Income Tax Expense in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q for further discussion.

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.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover a substantial majority of the

deferred tax assets recorded on our consolidated condensed balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not probable.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. As a result of the implementation of FIN 48, 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 of being 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. 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.

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

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation Number 48, Accounting for Income Tax Uncertainties (FIN 48). FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted FIN 48 as of June 25, 2007. As a result of the adoption of FIN 48, the Company decreased the recorded liability for unrecognized tax benefits by approximately $26.2 million, and reclassed approximately $64.4 million from current to non-current income taxes payable. The cumulative effect of adopting FIN 48 resulted in an increase to the Company s opening retained earnings in the first quarter of fiscal year 2008 of approximately $17.6 million.

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. We expect to adopt SFAS No. 159 beginning June 30, 2008 and are currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008. We expect to adopt SFAS No. 141R in the beginning of fiscal year 2010 and are currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on our consolidated results of operations and financial condition.

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LIQUIDITY AND CAPITAL RESOURCES

As of December 23, 2007, we had $1.3 billion in gross cash and cash equivalents, short-term investments, and restricted cash and investments (total cash and investments) which represents an increase of $242.5 million, or 24%, compared to the balances as of June 24, 2007. The sequential increase from June 24, 2007 was primarily attributable to cash provided by operating activities during the six months ended December 23, 2007 of $243.9 million, representing 19% of revenues. Cash flows for the six months ended December 23, 2007 are discussed in more detail below.

Cash Flows From Operating Activities

Net cash provided by operating activities of $243.9 million during the six months ended December 23, 2007, consisted of (in millions):

Net income	$ 263.6
Non-cash charges:	
Depreciation and amortization	22.6
Equity-based compensation	20.6
Net tax benefit on equity-based compensation plans	19.5
Deferred income taxes	(10.0)
Changes in operating asset accounts	(83.8)
Other	11.4
	$ 243.9

Significant changes in operating accounts included above during the six months ended December 23, 2007 included a decrease in deferred profit of $47.0 million, a decrease in accounts payable of $42.5 million, an increase in prepaid expenses and other assets of $39.5 million, and an increase in accounts receivable of $32.0 million, all partially offset by an increase in long-term income taxes payable of $76.8 million.

Cash Flows from Investing Activities

Net cash used for investing activities during the six months ended December 23, 2007 was $88.6 million and consisted of capital expenditures and intangible asset purchases of $38.6 million, net purchases of short-term investments of $31.9 million, the purchase of a foreign currency hedge of $10.3 million, and the purchase of other investments of $4.6 million.

Cash Flows from Financing Activities

Net cash provided by financing activities during the six months ended December 23, 2007 was $44.7 million, and included excess tax benefit on equity-based compensation plans of $37.6 million which represents the benefits of tax deductions in excess of the compensation cost recognized, net proceeds from issuance of common stock related to employee equity-based plans of $17.4 million, all partially offset by $10.2 million in share repurchases related to shares withheld through net share settlements upon the vesting of restricted stock unit awards under the Company s equity compensation plans.

Given the cyclical nature of the semiconductor equipment industry, we believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in R&D and capital infrastructure. Based upon our current business outlook, our levels of cash, cash equivalents, and short-term investments at December 23, 2007 are expected to be sufficient to support our presently anticipated levels of operations, investments, debt service requirements, and capital expenditures, through at least the next 12 months.

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

Commitments

We have certain obligations 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 U.S. generally accepted accounting principles and include our long-term debt which is outlined in the following table and discussed below. Our off-balance sheet arrangements include contractual relationships and are presented as operating leases and purchase obligations in the table below. Our contractual cash obligations and commitments relating to these agreements, and our guarantees are included in the following table. The amounts in the table below exclude $112.3 million of liabilities under FIN 48 as we are unable to reasonably estimate the ultimate amount or time of settlement. See Note 10, Income Taxes of Notes to Condensed Consolidated Financial Statements for further discussion.

	Operating Leases	Purchase Obligations	Long-term Debt and Interest Expense	Total
		(in thousands)		
Payments due by period:				
Less than 1 year	$ 13,240	$ 154,984	$ 13,561	$ 181,785
1-3 years	22,300	48,509	27,122	97,931
3-5 years	19,416	26,349	256,799	302,564
Over 5 years	160,644	29,525		190,169
Total	$ 215,600	$ 259,367	$ 297,482	$ 772,449

Operating Leases

We lease most of our administrative, R&D and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases, which expire at various dates through 2014. Certain of our facility leases for buildings located at our Fremont, California headquarters and certain other facility leases provide us with an option to extend the leases for additional periods or to purchase the facilities. Certain of our facility leases provide for periodic rent increases based on the general rate of inflation.

Included in the operating leases more than 5 years section of the table above is $141.8 million in guaranteed residual values for lease agreements relating to certain properties at our Fremont, California campus and properties in Livermore, California.

On December 18, 2007, we entered into a series of two operating leases (the Livermore Leases) regarding certain improved properties in Livermore, California. On December 21, 2007, we 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 our headquarters in Fremont, California. Each of the Operating Leases is an off-balance sheet arrangement.

The Operating Leases (and associated documents for each Operating Lease) were entered into by us and BNP Paribas Leasing Corporation (BNPPLC).

Each Livermore Lease facility has an approximately seven-year term (inclusive of an initial construction period during which BNPPLC s and our obligations will be governed by the Construction Agreement entered into with regard to such Livermore Lease facility) ending on the first business day in January, 2015. Total scheduled rent payments under the Livermore Leases are estimated to be approximately $25.7 million in the aggregate (based on one-month LIBOR rates at the time of entering into the leases), following completion of improvements to each property.

Each New Fremont Lease has an approximately seven-year term ending on the first business day in January, 2015. Total scheduled rent payments under the New Fremont Leases are approximately $32.4 million in the aggregate (based upon three-month LIBOR rates at the time of entering into the leases).

Under each Operating Lease, we may, at our 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 prepay the amount of BNPPLC s investment in the property and any accrued but unpaid rent. Any such amount may also include an additional make-whole amount for early redemption of the outstanding investment, which will vary depending on prevailing interest rates at the time of prepayment. We are required, pursuant to the terms of the Operating Leases and associated documents, to maintain collateral in an aggregate of approximately $165.0 million (upon completion of the Livermore construction) in separate interest-bearing accounts and/or eligible short-term investments with BNPPLC (or a third party, currently State Street Bank and Trust, with regard to the Livermore Leases) as security for our obligations under the Operating Leases.

Upon expiration of the term of an Operating Lease, the property subject to that Operating Lease may be remarketed. We have guaranteed to BNPPLC that each property will have a certain minimum residual value, as set forth in the applicable Operating Lease. The aggregate guarantee made by us under the Operating Leases is no more than approximately $141.8 million (although, under certain default circumstances, the guarantee with regard to an Operating Lease may be 100% of BNPPLC s investment in the applicable property; in the aggregate, the amounts payable under such guarantees will be no more than $165.0 million plus related indemnification or other obligations). Under each Operating Lease and its associated documents, we are subject to a financial covenant requiring us to maintain unrestricted cash, unencumbered cash investments, and unencumbered marketable securities of at least $300.0 million (not including the collateral maintained as security for our obligations under the Operating Leases). The Operating Leases are subject to customary default provisions, including, without limitation, those relating to payment defaults under the Operating Leases and associated documents, payment defaults under other indebtedness of us, performance defaults under the Operating Leases (including cross-defaults between each of the Operating Leases), and events of bankruptcy. In the event that such defaults occur and are continuing, BNPPLC may accelerate repayment of a portion or all of its investment under the applicable Operating Leases; alternatively, BNPPLC may require us to pay all amounts due under one or more Operating Leases through the end of the term of the applicable Operating Leases.

The lessor under the lease agreements is a substantive independent leasing company that does not have the characteristics of a variable interest entity (VIE) as defined by FASB Interpretation No. 46, Consolidation of Variable Interest Entities and is therefore not consolidated by us.

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

Purchase Obligations

Purchase obligations consist of significant contractual obligations either on an annual basis or over multi-year periods related to our outsourcing activities or other material commitments, including vendor-consigned inventories. We continue to enter into new agreements and maintain existing agreements to outsource certain activities, including elements of our manufacturing, warehousing, logistics, facilities maintenance, certain information technology functions, and certain transactional general and administrative functions. The contractual cash obligations and commitments table presented above contains our minimum obligations at September 23, 2007 under these arrangements and others. Actual expenditures will vary based on the volume of transactions and length of contractual service provided. In addition to these obligations, certain of these agreements include early termination provisions and/or cancellation penalties which could increase or decrease amounts actually paid.

Consignment inventories, which are owned by vendors but located in our storage locations and warehouses, are not reported as our inventory until title is transferred to us or our purchase obligation is determined. At December 23, 2007, vendor-owned inventories held at our locations and not reported as our inventory were $30.5 million.

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Long-Term Debt and Interest Expense

On June 16, 2006, our wholly-owned subsidiary, Lam Research International SARL (LRI), as borrower, entered into a $350 million Credit Agreement (the LRI Credit Agreement). Under the LRI Credit Agreement, on June 19, 2006, LRI borrowed $350 million in principal amount. The loan under the LRI Credit Agreement shall be fully repaid not later than five years following the closing date and will bear interest at LIBOR plus a spread (applicable margin) ranging from 0.10% to 0.50%, depending upon a consolidated leverage ratio, as defined in the LRI Credit Agreement. The initial applicable margin under the LRI Credit Agreement was 0.10%. LRI may prepay the loan under the LRI Credit Agreement in whole or in part at any time without penalty, subject to reimbursement of lenders breakage and redeployment costs in certain cases. Please see additional information under Subsequent Events below regarding termination of the LRI Credit Agreement and our entry into a new credit agreement. The amounts in the table above include the remaining principal payment of $250 million due on June 19, 2011 and interest payments estimated based on the current LIBOR rate in effect as of December 23, 2007 of 5.35% and applicable margin of ten basis points. The fair value of long-term debt approximates its carrying value due to the variable interest rate applicable to the debt.

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

Subsequent Events

SEZ Transaction: On March 11, 2008, we completed the tender offer for the outstanding shares of SEZ Holding AG (SEZ), the leading supplier of single-wafer clean technology and products to the global semiconductor manufacturing industry. Upon the completion of the tender, we acquired approximately 94% of the outstanding shares of SEZ. We expect to take additional steps as necessary to acquire the SEZ shares that remain outstanding.

The tender offer was conducted pursuant to the terms of a Transaction Agreement entered into on December 10, 2007 by and between the Company and SEZ (the Transaction Agreement). Under the terms of the Transaction Agreement, we acquired all shares of SEZ that were tendered in the offer at a price of CHF 38 per share in cash, for a total price of CHF 606 million, which approximated US$584 million.

In December 2007, we purchased a call option with a notional amount of approximately CHF 641 million to hedge the currency exposure in connection with the anticipated purchase of the shares of SEZ as noted above. The call option premium cost was $10.3 million. The mark-to-market for the fair value of the call option as of December 23, 2007 was $3.1 million resulting in a $7.2 million unrealized loss recorded in other income (expense), net in our condensed consolidated statements of operations for the quarter ended December 23, 2007. In February 2008 we extended the expiration date of the call option at an additional premium cost of $2.4 million. We exercised the call option during March 2008 which resulted in a gain of $40.7 million which we will record in other income (expense), net in our condensed consolidated statements of operations for the quarter ending March 30, 2008.

Credit Agreement: On March 3, 2008, we, as borrower, entered into a Credit Agreement, dated as of March 3, 2008 (the Credit Agreement) with ABN AMRO BANK N.V (the Agent), as administrative agent for the lenders party to the Credit Agreement, and such lenders. Bullen Semiconductor Corporation, our wholly-owned domestic subsidiary(Bullen), entered into a guarantee (the Bullen Guarantee) to guarantee our obligations under the Credit Agreement. In connection with the Credit Agreement, we and Bullen entered into certain collateral documents (collectively, the Collateral Documents) including a Security Agreement by us (the Security Agreement), a Security Agreement by Bullen (the Bullen Security Agreement), a Pledge Agreement by us (the Pledge Agreement) and other Collateral Documents to secure our obligations under the Credit Agreement. The Collateral Documents encumber current and future accounts receivables, inventory, equipment and related assets of us and Bullen, as well as 100% of our ownership interest in Bullen and 65% of our ownership interest in Lam Research International BV, our wholly-owned subsidiary. In addition, any future domestic subsidiaries of us will also enter into a similar guarantee and collateral documents to encumber the foregoing type of assets.

Under the Credit Agreement, we borrowed $250 million in principal amount for general corporate purposes. The loan under the Credit Agreement is a non-revolving term loan with the following repayment terms: (a) $12.5 million of the principal amount due on each of (i) September 30, 2008, (ii) March 31, 2009 and (iii) September 30, 2009 and (b) the payment of the remaining principal amount on March 6, 2010. The outstanding principal amount bears interest at LIBOR plus 0.75% per annum or, alternatively, at the Agent s prime rate. We may prepay the loan under the Credit

Agreement in whole or in part at any time without penalty. The Credit Agreement contains customary representations, warranties, affirmative covenants and events of default, as well as various negative covenants (including maximum leverage ratio, minimum liquidity and minimum EBITDA).

As a condition to funding under the Credit Agreement, the outstanding balance ($250 million) under the LRI Credit Agreement was repaid in full. LRI is our wholly-owned subsidiary. In addition, the Guarantee Agreement was also terminated. Our obligations under the Guarantee Agreement were fully collateralized by cash and cash equivalents.

Section 409A: As a result of the determinations from a voluntary independent stock option review, the Company considered the application of Section 409A of the IRC to certain stock option grants where, under APB No. 25, intrinsic value existed at the time of grant. In the event such stock option grants are not considered as issued at fair market value at the original grant date under the IRC and applicable regulations thereunder, these options are subject to Section 409A. On March 30, 2008, the Board of Directors of the Company authorized the Company to assume the liability of any and all employees, including the Company s Chief Executive Officer and certain executive officers, with options subject to Section 409A. The liability is currently estimated to be in the range of approximately $50 million to $55 million. The determinations from the voluntary independent stock option review are more fully described in Note 3, Restatement of Consolidated Financial Statements to Consolidated Financial Statements in Item 8 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Company s 2007 Form 10-K.

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

For financial market risks related to changes in interest rates and foreign currency exchange rates, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk , in our 2007 Form 10-K.

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

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Exchange Act Rule 13a-15(b), as of December 23, 2007, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer, concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

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

Changes in Internal Control over Financial Reporting

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

Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

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

The Results of Our Independent Committee Review of Our Historical Stock Option Practices and Resulting Restatements May Continue to Have Adverse Effects on Our Financial Results.

The Independent Committee s review of our historical stock option practices and the resulting restatement of our historical financial statements have required us to expend significant management time and incur significant accounting, legal, and other expenses during fiscal year 2008. The resulting restatements have had a material adverse effect on our results of operations. We have restated our historical results of operations to record additional non-cash, stock-based compensation expense of $95.2 million in the aggregate for the periods from fiscal 1997 to fiscal 2006 (excluding the impact of related payroll and income taxes). We expect to amortize less than $0.1 million of compensation expense under SFAS No. 123R in periods subsequent to fiscal year 2006 to properly account for previously issued stock options with deemed incorrect measurement dates. Furthermore, to address potential adverse tax consequences certain of our employees have incurred or may incur as a result of the issuance and/or exercise of misdated stock options, we will take remedial actions to make such employees including our Chief Executive Officer and other affected executive officers, whole for any or all such additional tax liabilities currently estimated to be in the range of approximately $50 million to $55 million. Such actions may cause us to incur additional cash or noncash compensation expense. See the Explanatory Note immediately preceding Part I, Item 1 and Note 3, Restatements of Consolidated Financial Statements, to Notes to Consolidated Financial Statements of our 2007 Form 10-K for further discussion.

We May Be Subject to the Risks of Lawsuits in Connection With Our Historical Stock Option Practices, the Resulting Restatements, and the Remedial Measures We Have Taken.

We, and our current and former directors and officers, may become the subject of government inquiries, shareholder derivative and/or class action lawsuits and other legal proceedings relating to our historical stock option practices and resulting restatements in the future. We have received a letter from a stockholder demanding that our Board of Directors take certain actions, including potentially legal action, in connection with our historical stock option practices, and threatening to sue if our Board of Directors does not comply with the stockholder s demands. Our Board of Directors is currently reviewing the letter. We may also be subject to other kinds of lawsuits. Should any of these events occur, they could require us to expend significant management time and incur significant accounting, legal and other expenses. This could divert attention and resources from the operation of our business and adversely affect our financial condition and results of operations. In addition, the ultimate outcome of these potential actions could have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price for our securities. Litigation may be time-consuming, expensive and disruptive to normal business operations, and the outcome of litigation is difficult to predict. The defense of these potential lawsuits could result in significant expenditures.

Subject to certain limitations, we are obliged to indemnify our current and former directors, officers and employees in connection with any government inquiry or litigation related to our historical stock option practices that may arise. We currently hold insurance policies for the benefit of our directors and officers, although there can be no assurance that the insurance would cover all of the expenses that would be associated with any proceedings.

Judgment and Estimates Utilized by Us in Determining Stock Option Grant Dates and Related Adjustments may be Subject to Change due to Subsequent SEC Guidance or Other Disclosure Requirements.

In determining the restatement adjustments in connection with the stock option review, management used all reasonably available relevant information to form conclusions it believes are appropriate as to the most likely option granting actions that occurred, the dates when such actions occurred, and the determination of grant dates for financial accounting purposes based on when the requirements of the accounting standards were met. We considered various alternatives throughout the course of the review and restatement, and we believe the approaches used were the most

appropriate, and that the choices of measurement dates used in our review of stock option grant accounting and restatement of our financial statements were reasonable and appropriate in our circumstances. However, the SEC may issue additional guidance on disclosure requirements related to the financial impact of past stock option grant measurement date errors that may require us to amend this filing or other filings with the SEC to provide additional disclosures pursuant to such additional guidance. Any such circumstance could also lead to future delays in filing our subsequent SEC reports and delisting of our Common Stock from the NASDAQ Global Select Market. Furthermore, if we are subject to adverse findings in any of these matters, we could be required to pay damages or penalties or have other remedies imposed upon us which could harm our business, financial condition, and results of operations.

We Have not Been in Compliance With SEC Reporting Requirements and NASDAQ Listing Requirements. If We are Unable to Attain Compliance With, or Thereafter Remain in Compliance With SEC Reporting Requirements and NASDAQ Listing Requirements, There may be a Material Adverse Effect on Our Business and Our Stockholders.

As a consequence of the Independent Committee review of our historical stock option practices and resulting restatements of our financial statements, we have not been able to file our periodic reports with the SEC on a timely basis and continue to face the possibility of delisting of our stock from the NASDAQ Global Select Market. We have now filed our 2007 Form 10-K our Quarterly Reports on Form 10-Q for the quarters ended September 23, 2007 and December 23, 2007 with the SEC, and we believe that these filings will remediate the Company s non-compliance with Marketplace Rule 4310(c) (14), subject to the affirmative completion by the NASDAQ Stock Market Inc. (NASDAQ) of its compliance protocols and its notification to the Company accordingly. However, if NASDAQ disagrees with the Company s position or if the SEC disagrees with the manner in which the financial impact of past stock option grants have been accounted for and reported, or not reported, there could be further delays in filing subsequent SEC reports or other actions that might result in delisting of the Company s Common Stock from the NASDAQ Global Select Market.

See the Explanatory Note immediately preceding Part I, Item 1 and Note 3, Restatements of Consolidated Financial Statements, to Consolidated Financial Statements of our 2007 Form 10-K for further discussion. Until we have returned to full compliance with SEC reporting requirements and NASDAQ listing requirements, the possibility of a NASDAQ delisting exists. If this happens, the price of our stock and the ability of our stockholders to trade in our stock would be adversely affected. In addition, we would be subject to a number of restrictions regarding the registration of our stock under federal securities laws, and we would not be able to allow our employees to exercise their outstanding options, which could adversely affect our business and results of operations.

As a result of the delayed filings of our Quarterly Reports on Form 10-Q for the quarters ended September 23, 2007 and December 23, 2007, as well as of the 2007 Form 10-K, will be ineligible to register our securities on Form S-3 for sale by us or resale by others until one year from the date the last delinquent filing is made. We may use Form S-1 to raise capital or complete acquisitions, but doing so could increase transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner.

It may be Difficult or More Costly to Obtain Director and Officer Liability Insurance Coverage as a Result of Our Stock Option Restatement.

The issues arising from our restatement may make it more difficult to obtain director and officer liability insurance coverage in the future. If we are able to obtain this coverage, it could be significantly more costly than in the past, which could have an adverse effect on our financial results and cash flow. If we are unable to secure appropriate director and officer liability insurance coverage on reasonable terms, our directors and officers could face increased risks of personal liability in connection with the performance of their duties. In that event, we believe we could have difficulty attracting and retaining qualified directors and officers, which could adversely affect our business.

Our Quarterly Revenues and Operating Results Are Unpredictable

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

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

the size and timing of orders from customers;

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

- changes in average selling prices, 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;
- changes in import/export regulations;
- transportation, communication, demand, information technology or supply disruptions based on factors outside our control such as acts of God, wars, terrorist activities, and natural disasters;
- legislative, tax, accounting, or regulatory changes or changes in their interpretation;
- procurement shortages;
- manufacturing difficulties;
- the failure of our suppliers or outsource providers to perform their obligations in a manner consistent with our expectations;
- changes in our estimated effective tax rate;
- new or modified accounting regulations and practices; and
- exchange rate fluctuations.

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

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

System sales constitute a significant portion of our total revenue. Our systems can typically range in price up to approximately $6 million per unit, and our revenues in any given quarter are dependent upon the acceptance of a rather limited number of such systems. As a result, the inability to declare revenue on even a few systems can cause a significant adverse impact on our revenues for that quarter.

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

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

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

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

Fluctuating levels of investment by semiconductor manufacturers could continue to materially affect our aggregate shipments, revenues and operating results. Where appropriate, we will attempt to respond to these fluctuations with

cost management programs aimed at aligning our expenditures with anticipated revenue streams, which sometimes result in restructuring charges. Even during periods of reduced revenues, we must continue to invest in research and development and maintain extensive ongoing worldwide customer service and support capabilities to remain competitive, which may temporarily harm our financial results.

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

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

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

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

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

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

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

We Have a Limited Number of Key Customers

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

Strategic Alliances May Have Negative Effects on Our Business

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

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

We are Dependent Upon a Limited Number of Key Suppliers

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

Our Outsource Providers May Fail to Perform as We Expect

Outsource providers have played and will play key roles in our manufacturing operations and in many of our transactional and administrative functions, such as information technology, facilities management, and certain elements of our finance organization. Although we aim at selecting reputable providers and secure their performance on terms documented in written contracts, it is possible that one or more of these providers could fail to perform as we expect and such failure could have an adverse impact on our business.

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

Once a Semiconductor Manufacturer Commits to Purchase a Competitor s Semiconductor Manufacturing Equipment, the Manufacturer Typically Continues to Purchase that Competitor s Equipment, Making it More Difficult for Us to Sell Our Equipment to that Customer

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

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

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

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

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

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

Non-U.S. sales accounted for approximately 84% in fiscal year 2007, 86% in fiscal year 2006 and 84% in fiscal year 2005 of our total revenue. We expect that international sales will continue to account for a significant portion of our total revenue in future years.

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

- trade balance issues;
- economic and political conditions;
- changes in currency controls;
- differences in the enforcement of intellectual property and contract rights in varying jurisdictions;
- our ability to develop relationships with local suppliers;
- compliance with U.S. and international laws and regulations, including U.S. export restrictions;
- fluctuations in interest and currency exchange rates;
- the need for technical support resources in different locations; and
- our ability to secure and retain qualified people for the operation of our business.

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

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

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

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

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. We are subject to income taxes in both the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. Our effective tax rate could be adversely affected by changes in the split of earnings between countries with differing statutory tax rates, in the valuation of deferred tax assets, in tax laws or by material audit assessments, which 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 discharge or disposal of toxic, volatile or otherwise hazardous chemicals. We believe that we are in general compliance with these regulations and that we have obtained (or will obtain or are otherwise addressing) all necessary environmental permits to conduct our business. These permits generally relate to the disposal of hazardous wastes. Nevertheless, the failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, cessation of our operations or reduction in our customers acceptance of our products. These regulations could require us to alter our current operations, to acquire significant equipment or to incur substantial other expenses to comply with environmental regulations. Our failure to control the use, sale, transport or disposal of hazardous substances could subject us to future liabilities.

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

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

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

An important element of our management strategy is to review acquisition prospects that would complement our existing products, augment our market coverage and distribution ability, or enhance our technological capabilities. As a result, we may make acquisitions of complementary companies, products or technologies,such as our March 2008 acquisition of SEZ Holding AG, 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 entails numerous operational and financial risks, including difficulties in assimilating acquired operations and new personnel or separating existing business or product groups, diversion of management s attention away from other business concerns, amortization of acquired intangible assets and potential loss of key employees or customers of acquired or disposed operations among others. We anticipate that our recent acquisition of SEZ will give rise to risks like these, as we integrate its operations with ours. There can be no assurance that we will be able to achieve and manage successfully any such integration of potential acquisitions, disposition of product lines or technologies, or reduction in personnel or that our management, personnel, or systems will be adequate to support continued operations. Any such inabilities or inadequacies could have a material adverse effect on our business, operating results, financial condition, and cash flows.

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

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

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

- general market, semiconductor, or semiconductor equipment industry conditions;
- global economic fluctuations;
- variations in our quarterly operating results;
- variations in our revenues or earnings from levels experienced by other companies in our industry or forecasts by securities analysts;
- announcements of restructurings, technological innovations, reductions in force, departure of key employees, consolidations of operations, or introduction of new products;
- government regulations;
- developments in, or claims relating to, patent or other proprietary rights;
- success or failure of our new and existing products;
- liquidity of Lam Research;
- disruptions with key customers or suppliers; or
- political, economic, or environmental events occurring globally or in any of our key sales regions.

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

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

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

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

Third parties may assert infringement, unfair competition or other claims against us. From time to time, other parties send us notices alleging that our products infringe their patent or other intellectual property rights. In addition, our Bylaws and indemnity obligations provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from their service to Lam Research. In such cases, it is our policy either to defend the claims or to negotiate licenses or other settlements on commercially reasonable terms. However, we may be unable in the future to negotiate necessary licenses or reach agreement on other settlements on commercially reasonable terms, or at all, and any litigation resulting from these claims by other parties may materially adversely affect our business and financial results. Moreover, although we seek to obtain insurance to protect us from claims and cover losses to our property, there is no guarantee that such insurance will fully indemnify us for any losses that we may incur.

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of each fiscal year. Furthermore, our independent registered public accounting firm (the Independent Registered Public Accounting Firm) is required to report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of the end of each fiscal year. We have successfully completed our assessment and obtained our Independent Registered Public Accounting Firm s attestation as to the effectiveness of our internal control over financial reporting as of June 24, 2007. In future years, if we fail to timely complete this assessment, or if our Independent Registered Public Accounting Firm cannot timely attest to our assessment, we could be subject to regulatory sanctions and a loss of public confidence in our internal control. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

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

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

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) During the quarter ended December 23, 2007, 15,683 shares totaling $0.8 million were withheld by the Company through net share settlements upon the vesting of restricted stock unit awards under the Company s equity compensation plans to cover tax withholding obligations. During the six months ended December 23, 2007 there were 181,208 shares totaling $10.2 million were withheld by the Company through net share settlements upon the vesting of restricted stock unit awards under the Company s equity compensation plans to cover tax withholding obligations.

ITEM 3. Defaults Upon Senior Securities

None.

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

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

None.

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LAM RESEARCH CORPORATION
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 31, 2008

LAM RESEARCH CORPORATION
(Registrant)

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

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EXHIBIT INDEX

Exhibit Number	Description
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)