

LAM RESEARCH CORP
Form 10-Q
November 01, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 23, 2012

or

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

For the transition period from to

Commission file number 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	94-2634797 (I.R.S. Employer Identification No.)
4650 Cushing Parkway Fremont, California (Address of principal executive offices)	94538 (Zip Code)
(510) 572-0200 (Registrant's telephone number, including area code)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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:

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of October 26, 2012 there were 171,342,079 shares of registrant's common stock outstanding.

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LAM RESEARCH CORPORATION

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****LAM RESEARCH CORPORATION****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	September 23, 2012 (unaudited)	June 24, 2012 (1)
ASSETS		
Cash and cash equivalents	\$ 1,411,466	\$ 1,564,752
Short-term investments	1,312,767	1,297,931
Accounts receivable, less allowance for doubtful accounts of \$5,366 as of September 23, 2012 and \$5,248 as of June 24, 2012	640,217	765,818
Inventories	567,920	632,853
Deferred income taxes	136,556	47,782
Prepaid expenses and other current assets	100,490	105,973
Total current assets	4,169,416	4,415,109
Property and equipment, net	593,202	584,596
Restricted cash and investments	166,196	166,335
Goodwill	1,446,303	1,446,303
Intangible assets, net	1,196,467	1,240,427
Other assets	152,762	151,882
Total assets	\$ 7,724,346	\$ 8,004,652
LIABILITIES AND STOCKHOLDERS' EQUITY		
Trade accounts payable	\$ 148,120	\$ 258,778
Accrued expenses and other current liabilities	496,528	492,178
Deferred profit	208,088	164,833
Current portion of long-term debt, convertible notes, and capital leases	1,521	511,139
Total current liabilities	854,257	1,426,928
Long-term debt, convertible notes, and capital leases	1,278,792	761,783
Income taxes payable	282,844	274,240
Other long-term liabilities	296,807	219,577
Total liabilities	2,712,700	2,682,528
Commitments and contingencies		
Senior convertible notes (Note 13)		190,343
Stockholders' equity:		
Preferred stock, at par value of \$0.001 per share; authorized - 5,000 shares; none outstanding		
Common stock, at par value of \$0.001 per share; authorized - 400,000 shares; issued and outstanding 175,341 shares as of September 23, 2012 and 186,656 shares as of June 24, 2012	175	187
Additional paid-in capital	5,159,457	4,943,539
Treasury stock, at cost; 73,876 shares as of September 23, 2012 and 62,068 shares as of June 24, 2012	(2,975,656)	(2,636,936)
Accumulated other comprehensive loss	(33,907)	(33,818)
Retained earnings	2,861,577	2,858,809

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Total stockholders' equity	5,011,646	5,131,781
Total liabilities and stockholders' equity	\$ 7,724,346	\$ 8,004,652

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements

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LAM RESEARCH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended	
	September 23, 2012	September 25, 2011
Revenue	\$ 906,888	\$ 680,436
Cost of goods sold	573,002	396,553
Gross margin	333,886	283,883
Research and development	163,311	102,559
Selling, general and administrative	153,863	80,200
Restructuring and impairments		1,725
Total operating expenses	317,174	184,484
Operating income	16,712	99,399
Other expense, net	(9,938)	(12,073)
Income before income taxes	6,774	87,326
Income tax expense	4,006	15,488
Net income	\$ 2,768	\$ 71,838
Net income per share:		
Basic net income per share	\$ 0.02	\$ 0.58
Diluted net income per share	\$ 0.02	\$ 0.58
Number of shares used in per share calculations:		
Basic	179,928	123,130
Diluted	181,926	124,049

See Notes to Condensed Consolidated Financial Statements

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	Three Months Ended	
	September 23, 2012	September 25, 2011
Net income	\$ 2,768	\$ 71,838
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(4,125)	(14,910)
Unrealized gain (loss) on fair value of derivative financial instruments, net	1,926	(3,531)
Unrealized gain (loss) on financial instruments, net	2,689	(859)
Reclassification adjustment for gain included in earnings	(737)	(2,369)
Postretirement benefit plan adjustment	158	(4,526)
Other comprehensive loss	(89)	(26,195)
Comprehensive income	\$ 2,679	\$ 45,643

See Notes to Condensed Consolidated Financial Statements

Table of Contents**LAM RESEARCH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Three Months Ended	
	September 23, 2012	September 25, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,768	\$ 71,838
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,816	21,360
Deferred income taxes	(12,017)	
Restructuring and impairment charges		1,725
Impairment of investment		1,724
Equity-based compensation expense	24,414	17,744
Income tax benefit on equity-based compensation plans		659
Excess tax benefit on equity-based compensation plans		(1,951)
Amortization of convertible note discount	7,752	6,593
Other, net	8,406	1,423
Changes in operating assets and liabilities	143,123	(34,215)
Net cash provided by operating activities	249,262	86,900
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and intangible assets	(43,965)	(15,732)
Purchases of available-for-sale securities	(222,187)	(158,050)
Sales and maturities of available-for-sale securities	205,549	72,791
Transfer of restricted cash and investments	146	17
Net cash used for investing activities	(60,457)	(100,974)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt and capital lease obligations	(665)	(1,564)
Excess tax benefit on equity-based compensation plans		1,951
Net cash paid in advance for stock repurchase contracts		(75,000)
Treasury stock purchases	(355,079)	(72,053)
Reissuances of treasury stock related to employee stock purchase plan	9,925	8,858
Proceeds from issuance of common stock	951	164
Net cash used for financing activities	(344,868)	(137,644)
Effect of exchange rate changes on cash	2,777	(1,096)
Net decrease in cash and cash equivalents	(153,286)	(152,814)
Cash and cash equivalents at beginning of period	1,564,752	1,492,132
Cash and cash equivalents at end of period	\$ 1,411,466	\$ 1,339,318

See Notes to Condensed Consolidated Financial Statements

Table of Contents**LAM RESEARCH CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 23, 2012

(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 (GAAP) for interim financial information and the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP 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, 2012, which are included in the Annual Report on Form 10-K as of and for the year ended June 24, 2012 (the 2012 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 www.sec.gov. The Company also posts its Forms 10-K, Forms 10-Q and Forms 8-K on its corporate website at <http://investor.lamresearch.com>.

The consolidated financial statements include the accounts of Lam Research Corporation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. We use the equity method to account for equity investments in instances in which we own common stock or similar interests and have the ability to exercise significant influence, but not control, over the investee. The Company s reporting period is a 52/53-week fiscal year. The Company s current fiscal year will end June 30, 2013 and includes 53 weeks. The quarters ended September 23, 2012 (the September 2012 quarter) and September 25, 2011 (the September 2011 quarter) each included 13 weeks.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (FASB) issued new authoritative guidance that increases the prominence of items reported in other comprehensive income (OCI) by eliminating the option to present components of OCI as part of the statement of changes in stockholders equity. The amendments in this standard require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted this guidance in the September 2012 quarter. The implementation of this authoritative guidance did not have an impact on the Company s financial position or results of operations, but did change the presentation of the Company s financial statements.

NOTE 3 EQUITY-BASED COMPENSATION PLANS

The Company has stock plans that provide for grants of equity-based awards to eligible participants, including stock options and restricted stock units (RSUs), of Lam Research common stock (Common Stock). An option is a right to purchase the Company s stock at a set price. An RSU award is an agreement to issue shares of the Company s stock at the time of vesting. The Company s options and RSU awards typically vest over a period of two years or less, although awards assumed in connection with the Novellus acquisition have vesting terms up to four years. The Company also has an employee stock purchase plan that allows employees to purchase its Common Stock at a discount through payroll deductions.

The Company recognized the following equity-based compensation expense and related income tax benefit in the Condensed Consolidated Statements of Operations:

	Three Months Ended	
	September 23, 2012	September 25, 2011
	(in millions)	
Equity-based compensation expense	\$ 24.4	\$ 17.7
Income tax benefit related to equity-based compensation expense	\$ 5.7	\$ 2.7

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The estimated fair value of the Company's stock-based awards, less expected forfeitures, is amortized over the awards' vesting term on a straight-line basis. The increase in stock compensation expense during the three months ended September 23, 2012 as compared to the three months ended September 25, 2011 was primarily due to the increased number of RSUs and stock options outstanding as a result of awards assumed in connection with the Novellus acquisition.

Stock Options and RSUs

The 2007 Stock Incentive Plan provides for grants of equity-based awards to eligible participants. In June 2012, as part of the Novellus acquisition, Lam also assumed the Novellus Systems, Inc. 2011 Stock Incentive Plan (together with the 2007 Stock Incentive Plan, collectively the Plans), which provides for grants of equity-based awards to eligible participants. As of September 23, 2012, there were a total of 7,893,626 shares reserved to cover options and RSUs issued and outstanding under the Plans. As of September 23, 2012, there were an additional 15,821,889 shares reserved and available for future equity-based awards under the Plans.

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A summary of stock option activity under the Plans as of September 23, 2012 and changes during the three 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 September 23, 2012 (in thousands)
Outstanding at June 24, 2012	3,902	\$ 25.14	4.79	
Exercised	(46)	\$ 20.72		
Forfeited or expired	(21)	\$ 22.13		
Outstanding at September 23, 2012	3,835	\$ 25.21	4.53	\$ 31,319
Exercisable at September 23, 2012	2,684	\$ 26.79	3.31	\$ 18,206

The total intrinsic value of options exercised during the three months ended September 23, 2012 and September 25, 2011 was \$0.6 million and \$0.2 million, respectively. As of September 23, 2012, there was \$10.0 million of total unrecognized compensation cost related to unvested stock options granted and outstanding; that cost is expected to be recognized over a weighted average remaining vesting period of 1.6 years.

A summary of the Company's RSUs as of September 23, 2012 and changes during the three months then ended is presented below:

Unvested Restricted Stock Units	Shares (in thousands)	Average Grant- Date Fair Value
Unvested at June 24, 2012	4,331	\$ 41.01
Granted	190	\$ 34.51
Vested	(393)	\$ 36.10
Forfeited	(69)	\$ 39.28
Unvested at September 23, 2012	4,059	\$ 41.21

The fair value of the Company's RSUs was calculated based upon the fair market value of the Company's stock at the date of grant. As of September 23, 2012, there was \$101.9 million of total unrecognized compensation expense related to unvested RSUs granted; that expense is expected to be recognized over a weighted average remaining period of 2.0 years.

ESPP

The 1999 Employee Stock Purchase Plan (as amended and restated, the 1999 ESPP) allows employees to designate a portion of their base compensation to be withheld through payroll deductions and used to purchase the Company's Common Stock at a purchase price per share equal to the lower of 85% of the fair market value of the Company's Common Stock on the first or last day of the applicable purchase period. Each offering period generally lasts up to 12 months and includes up to three interim purchase dates. As of September 23, 2012, there were a total of 10,304,484 shares available for issuance under the 1999 ESPP.

Purchase rights under the 1999 ESPP were valued using the Black-Scholes model assuming no expected dividends and the following weighted-average assumptions for the three months ended September 23, 2012:

	Three Months Ended September 23, 2012
Expected term (years)	0.7

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Expected stock price volatility	33.26%
Risk-free interest rate	0.16%

As of September 23, 2012, there was \$8.0 million of unrecognized compensation expense related to the 1999 ESPP, which is expected to be recognized over a remaining period of approximately 11 months.

Table of Contents**NOTE 4 FINANCIAL INSTRUMENTS**

The Company maintains an investment portfolio of various holdings, types, and maturities. The Company's mutual funds, which are related to the Company's obligations under the deferred compensation plan, are classified as trading securities. Investments classified as trading securities are recorded at fair value based upon quoted market prices. Differences between the cost and fair value of trading securities are recognized as other income (expense) in the Consolidated Statements of Operations. All of the Company's other short-term investments are classified as available-for-sale and consequently are recorded in the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax.

Fair Value

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

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

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

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

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

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

	Fair Value Measurement at September 23, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets				
Short-Term Investments				
Money Market Funds	\$ 1,175,847	\$ 1,175,847	\$	\$
Municipal Notes and Bonds	325,648		325,648	
US Treasury and Agencies	179,213	179,213		
Government-Sponsored Enterprises	118,105		118,105	
Foreign Government Bonds	7,882		7,882	
Corporate Notes and Bonds	750,919	164,885	586,034	
Mortgage Backed Securities Residential	15,221		15,221	
Mortgage Backed Securities Commercial	81,463		81,463	
Total Short-Term Investments	\$ 2,654,298	\$ 1,519,945	\$ 1,134,353	\$
Equities	5,740	5,740		
Mutual Funds	19,553	19,553		
Derivative Assets	2,698		2,698	

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Total Assets	\$ 2,682,289	\$ 1,545,238	\$ 1,137,051	\$
Liabilities				
Derivative Liabilities	\$ 2,990	\$	\$ 2,607	\$ 383

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The amounts in the table above are reported in the Consolidated Balance Sheet as of September 23, 2012 as follows:

Reported Within:	Total	(Level 1)	(Level 2)	(Level 3)
		(In thousands)		
Cash Equivalents	\$ 1,176,646	\$ 1,175,847	\$ 799	\$
Short-Term Investments	1,312,767	179,213	1,133,554	
Restricted Cash and Investments	164,885	164,885		
Prepaid Expenses and Other Current Assets	2,698		2,698	
Other Assets	25,293	25,293		
Total Assets	\$ 2,682,289	\$ 1,545,238	\$ 1,137,051	\$
Accrued Expenses and Other Current Liabilities	\$ 2,607	\$	\$ 2,607	\$
Other Non-current Liabilities	383			\$ 383
Total Liabilities	\$ 2,990	\$	\$ 2,607	\$ 383

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

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

The amounts in the table above are reported in the Consolidated Balance Sheet as of June 24, 2012 as follows:

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

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

Investments

The following tables summarize the Company's investments (in thousands):

	September 23, 2012				June 24, 2012			
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value
Cash	\$ 236,130	\$	\$	\$ 236,130	\$ 240,841	\$	\$	\$ 240,841
Fixed Income Money Market Funds	1,175,847			1,175,847	1,318,812			1,318,812
Municipal Notes and Bonds	324,072	1,582	(6)	325,648	321,001	1,574	(8)	322,567
US Treasury and Agencies	179,077	154	(18)	179,213	137,516	43	(113)	137,446
Government-Sponsored Enterprises	117,872	235	(2)	118,105	123,269	67	(68)	123,268
Foreign Government Bonds	7,796	86		7,882	6,315	43		6,358
Corporate Notes and Bonds	747,817	3,172	(70)	750,919	767,847	1,443	(389)	768,901
Mortgage Backed Securities Residential	15,104	120	(3)	15,221	25,857	121	(6)	25,972
Mortgage Backed Securities Commercial	80,847	911	(295)	81,463	84,682	555	(384)	84,853
Total Cash and Short -Term Investments	\$ 2,884,562	\$ 6,260	\$ (394)	\$ 2,890,428	\$ 3,026,140	\$ 3,846	\$ (968)	\$ 3,029,018
Publicly Traded Equity Securities	\$ 9,320	\$	\$ (3,580)	\$ 5,740	\$ 9,320	\$	\$ (3,407)	\$ 5,913
Private equity securities	5,000			5,000	5,000			5,000
Mutual Funds	18,559	1,028	(34)	19,553	17,459	366	(71)	17,754
Total Financial Instruments	\$ 2,917,441	\$ 7,288	\$ (4,008)	\$ 2,920,721	\$ 3,057,919	\$ 4,212	\$ (4,446)	\$ 3,057,685
Reported Within								
Cash and Cash Equivalents	\$ 1,411,467	\$	\$ (1)	\$ 1,411,466	\$ 1,564,752	\$	\$	\$ 1,564,752
Short-Term Investments	1,306,900	6,260	(393)	1,312,767	1,295,053	3,846	(968)	1,297,931
Restricted Cash and Investments	166,196			166,196	166,335			166,335
Other assets	32,878	1,028	(3,614)	30,292	31,779	366	(3,478)	28,667
Total	\$ 2,917,441	\$ 7,288	\$ (4,008)	\$ 2,920,721	\$ 3,057,919	\$ 4,212	\$ (4,446)	\$ 3,057,685

The Company accounts for its investment portfolio at fair value. Realized gains (losses) for investment sales and pay-downs are specifically identified. Management assesses the fair value of investments in debt securities that are not actively traded through consideration of interest rates and their impact on the present value of the cash flows to be received from the investments. The Company also considers whether changes in the credit ratings of the issuer could impact the assessment of fair value. The Company did not recognize any losses on investments due to other-than-temporary impairments during the three months ended September 23, 2012. The Company recognized a \$1.7 million other-than-temporary impairment of a strategic private equity investment during the three months ended September 25, 2011. Additionally, gross realized gains and gross realized (losses) from sales of investments were approximately \$0.3 million and \$(0.4) million, respectively, in the three months ended September 23, 2012 and \$0.1 million and \$(0.1) million, respectively, in the three months ended September 25, 2011.

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

	Unrealized Losses Less Than 12 Months		September 23, 2012 Unrealized Losses 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	Short-Term Investments					
Municipal Notes and Bonds	\$ 13,222	\$ (6)	\$	\$	\$ 13,222	\$ (6)
US Treasury and Agencies	54,331	(18)			54,331	(18)
Government-Sponsored Enterprises	3,513	(2)			3,513	(2)
Corporate Notes and Bonds	65,386	(67)	715	(3)	66,101	(70)
Mortgage Backed Securities Residential			172	(3)	172	(3)
Mortgage Backed Securities Commercial	35,086	(258)	1,638	(37)	36,724	(295)
Total Short-Term Investments	\$ 171,538	\$ (351)	\$ 2,525	\$ (43)	\$ 174,063	\$ (394)

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

	September 23, 2012		June 24, 2012	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
	(in thousands)			
Due in less than one year	\$ 1,673,245	\$ 1,673,842	\$ 1,819,712	\$ 1,820,089
Due in more than one year	975,187	980,456	965,587	968,088
	\$ 2,648,432	\$ 2,654,298	\$ 2,785,299	\$ 2,788,177

Management has the ability, if necessary, to liquidate any of its cash equivalents and short-term investments in order to meet the Company's liquidity needs in the next 12 months. Accordingly, those investments with contractual maturities greater than one year from the date of purchase nonetheless are classified as short-term on the accompanying Consolidated Balance Sheets.

Derivative Instruments and Hedging

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

Cash Flow Hedges

In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations on non-US dollar transactions or cash flows, primarily from Japanese yen-denominated revenues and Euro-denominated expenses. The Company's policy is to mitigate the foreign exchange risk arising from the fluctuations in the value of these non-US dollar denominated transactions or cash flows through a foreign currency cash flow hedging program, using foreign currency forward contracts that generally expire within 12 months and no later than 24 months. These foreign currency forward contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in

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accumulated other comprehensive income (loss) and subsequently recognized in the same period the hedged transaction is recognized.

At inception and at each quarter end, hedges are tested prospectively and retrospectively for effectiveness using regression analysis. Changes in the fair value of foreign currency forward contracts due to changes in time value are excluded from the assessment of effectiveness and are recognized in revenue in the current period. The change in time value related to these contracts was not material for all reported periods. To qualify for hedge accounting, the hedge relationship must meet criteria relating both to the derivative instrument and the hedged item. These criteria include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows will be measured. There were no gains or losses during the three months ended September 23, 2012 or September 25, 2011 associated with ineffectiveness or forecasted transactions that failed to occur.

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To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges must be tested to demonstrate an expectation of providing highly effective offsetting changes to future cash flows on hedged transactions. When derivative instruments are designated and qualify as effective cash flow hedges, the Company recognizes effective changes in the fair value of the hedging instrument within accumulated other comprehensive income (loss) until the hedged exposure is realized. Consequently, with the exception of excluded time value and hedge ineffectiveness recognized, the Company's results of operations are not subject to fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that the underlying hedged forecasted transactions will occur, the Company may not be able to account for its derivative instruments as cash flow hedges. If this were to occur, future changes in the fair values of the Company's derivative instruments would be recognized in earnings. Additionally, related amounts previously recorded in other comprehensive income would be reclassified to income immediately. At September 23, 2012, the Company had gains of \$1.0 million accumulated in other comprehensive income, which it expects to reclassify from other comprehensive income into earnings over the next 12 months.

Balance Sheet Hedges

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

As of September 23, 2012, the Company had the following outstanding foreign currency forward contracts that were entered into under its cash flow and balance sheet hedge program:

Foreign Currency Forward Contracts	Derivatives Designated as Hedging Instruments:		Derivatives Not Designated as Hedging Instruments:	
	Buy Contracts	Sell Contracts	Buy Contracts	Sell Contracts
Japanese Yen	\$	\$ 57,268	\$	\$ 29,785
Swiss Francs			23,472	
Great British Pounds			4,604	
Taiwanese Dollars			94,870	
Euro	76,977		1,824	
	\$ 76,977	\$ 57,268	\$ 124,770	\$ 29,785

The fair value of derivative instruments in the Company's Consolidated Balance Sheet as of September 23, 2012 was as follows:

	Fair Value of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expense and other assets	\$ 2,269	Accrued liabilities	\$ 1,246
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expense and other assets	\$ 429	Accrued liabilities	\$ 1,361
Total derivatives		\$ 2,698		\$ 2,607

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The fair value of derivative instruments in the Company's Consolidated Balance Sheet as of June 24, 2012 was as follows:

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

The effect of derivative instruments designated as cash flow hedges on the Company's Consolidated Statements of Operations was as follows:

	Three Months Ended September 23, 2012			
	Gain (Loss) Recognized (Effective Portion) (1)	Gain (Loss) Recognized (Effective Portion) (2)	Gain (Loss) Recognized (Ineffective Portion) (3)	Gain (Loss) Recognized (Excluded from Effectiveness Testing) (4)
Derivatives Designated as Hedging Instruments:				
Foreign exchange forward contracts	\$ (3,130)	\$ (1,926)	\$ (9)	\$ (13)
	Three Months Ended September 25, 2011			
	Gain (Loss) Recognized (Effective Portion) (1)	Gain (Loss) Recognized (Effective Portion) (2)	Gain (Loss) Recognized (Ineffective Portion) (3)	Gain (Loss) Recognized (Excluded from Effectiveness Testing) (4)
Derivatives Designated as Hedging Instruments:				
Foreign exchange forward contracts	\$ (8,212)	\$ (2,606)	\$ (1)	\$ 531

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

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The effect of derivative instruments not designated as cash flow hedges on the Company's Consolidated Statement of Operations was as follows:

	Three Months Ended	
	September 23, 2012	September 25, 2011
	Gain (Loss)	Gain (Loss)
Derivatives Not Designated as Hedging Instruments:	Recognized (5)	Recognized (5)
	(in thousands)	
Foreign exchange forward contracts	\$ (5,382)	\$ (22,412)

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

Concentrations of Credit Risk

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

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

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

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

NOTE 5 INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market. Shipments to Japanese customers, to whom title does not transfer until customer acceptance, are classified as finished goods inventory and carried at cost until title transfers. Inventories consist of the following:

	September 23, 2012	June 24, 2012
	(in thousands)	
Raw materials	\$ 316,755	\$ 342,283
Work-in-process	85,149	118,566
Finished goods	166,016	172,004
	\$ 567,920	\$ 632,853

Table of Contents**NOTE 6 PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consists of the following:

	September 23, 2012	June 24, 2012
	(in thousands)	
Manufacturing, engineering and office equipment	\$ 489,255	\$ 468,739
Computer equipment and software	106,952	104,919
Land	65,232	65,228
Buildings	235,470	231,536
Leasehold improvements	55,011	54,327
Furniture and fixtures	20,740	19,770
	972,660	944,519
Less: accumulated depreciation and amortization	(379,458)	(359,923)
	\$ 593,202	\$ 584,596

The Company's long lived assets held for use, including property, plant, and equipment and intangible assets, are measured at fair value when an impairment exists. Long lived assets held for use are assessed for impairment when events occur that indicate a potential impairment. The Company did not record an impairment of long lived assets held for use during the three months ended September 23, 2012 or September 25, 2011.

NOTE 7 GOODWILL AND INTANGIBLE ASSETS**Goodwill**

The balance of goodwill was \$1.4 billion as of September 23, 2012 and June 24, 2012. Of the \$1.4 billion goodwill balance, \$61 million is tax deductible and the remaining balance is not tax deductible due to purchase accounting and applicable foreign law.

The Company's goodwill is measured at fair value when an impairment exists. Goodwill is assessed at least annually for impairment. The Company did not record impairments of goodwill during the three months ended September 23, 2012 or September 25, 2011.

Intangible Assets

The following table provides details of the Company's intangible assets, including the impact of foreign currency translation adjustments, as of September 23, 2012 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Weighted- Average Useful Life (years)
Customer relationships	\$ 615,651	\$ (49,800)	\$ 565,851	9.04
Existing technology	642,792	(71,219)	571,573	6.97
Patents	30,870	(18,718)	12,152	6.05
Backlog	10,000	(3,048)	6,952	1.00
Other intangible assets	35,216	(34,377)	839	4.10
Intangible assets subject to amortization	1,334,529	(177,162)	1,157,367	
IP R&D	30,000		30,000	
Development rights	9,100		9,100	

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Intangible assets not subject to amortization	39,100		39,100
Total intangible assets	\$ 1,373,629	\$ (177,162)	\$ 1,196,467

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The following table provides details of the Company's intangible assets, including the impact of foreign currency translation adjustments, as of June 24, 2012 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Weighted- Average Useful Life (years)
Customer relationships	\$ 615,411	\$ (32,041)	\$ 583,370	9.04
Existing technology	642,311	(48,378)	593,933	6.97
Patents	30,870	(17,525)	13,345	6.05
Backlog	10,000	(548)	9,452	1.00
Other intangible assets	35,216	(33,989)	1,227	4.10
Intangible assets subject to amortization	1,333,808	(132,481)	1,201,327	
IP R&D	30,000		30,000	
Development rights	9,100		9,100	
Intangible assets not subject to amortization	39,100		39,100	
Total intangible assets	\$ 1,372,908	\$ (132,481)	\$ 1,240,427	

The Company recognized \$44.6 million and \$4.5 million in intangible asset amortization expense during the three months ended September 23, 2012 and September 25, 2011, respectively.

The estimated future amortization expense of purchased intangible assets as of September 23, 2012 is as follows (in thousands):

Fiscal Year	Amount
2013 (9 months)	\$ 131,765
2014	160,968
2015	152,728
2016	150,905
2017	150,652
Thereafter	410,349
	\$ 1,157,367

NOTE 8 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	September 23, 2012	June 24, 2012
	(in thousands)	
Accrued compensation	\$ 286,889	\$ 274,165
Warranty reserves	61,006	63,988
Income and other taxes payable	22,220	24,745
Other	126,413	129,280
	\$ 496,528	\$ 492,178

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

	Three Months Ended	
	September 23, 2012	September 25, 2011
	(in thousands)	
Interest income	\$ 3,800	\$ 2,589
Interest expense	(15,144)	(9,260)
Gains (losses) on deferred compensation plan related assets	2,741	(1,865)
Foreign exchange losses	(368)	(1,090)
Other, net	(967)	(2,447)
	\$ (9,938)	\$ (12,073)

NOTE 10 INCOME TAX EXPENSE

The Company recorded an income tax provision of \$4.0 million which yielded an effective tax rate for the quarter ended September 23, 2012 of approximately 59.1%. The difference between the U.S. federal statutory tax rate of 35% and the Company's effective tax rate is primarily due to the geographic mix of income, the treatment of discrete items in determining the effective tax rate, and the tax effect of non-deductible stock-based compensation. During the September 2012 quarter, tax discrete items primarily consisted of the effective tax rate impact of \$17 million of integration expenses for which little tax benefit is derived and a tax expense of \$1.5 million of interest related to uncertain tax positions.

The total gross unrecognized tax benefits as of each date noted below were as follows:

	September 23, 2012	June 24, 2012
	(in millions)	
Total gross unrecognized tax benefits	\$ 352.9	\$ 343.8

If the gross unrecognized tax benefits were recognized in a future period, it would result in a net tax benefit of \$285.1 million and a reduction of the effective tax rate.

The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense. As of September 23, 2012, the Company had accrued approximately \$28.2 million for the payment of gross interest and penalties, relating to unrecognized tax benefits, compared to \$25.2 million as of June 24, 2012.

The Internal Revenue Service (IRS) is examining the Company's U.S. income tax returns for fiscal years through 2009. As of September 23, 2012, no significant adjustments have been proposed by the IRS. The Company is unable to make a reasonable estimate as to when cash settlements, if any, with the relevant taxing authorities will occur. In addition, the Company is also subject to audits by foreign tax authorities.

The Company files U.S. federal, U.S. state, and foreign income tax returns. As of September 23, 2012, tax years 2003-2012 remain subject to examination in the jurisdictions where the Company operates.

The Company is in various stages of the examinations in connection with all of its tax audits worldwide and it is difficult to determine when these examinations will be settled. It is reasonably possible that over the next twelve-month period the Company may experience an increase or decrease in its unrecognized tax benefits. It is not possible to determine either the magnitude or the range of any increase or decrease at this time.

Realization of the Company's net deferred tax assets is based upon the weight of available evidence, including such factors as the recent earnings history and expected future taxable income. The Company believes it is more likely than not that such assets will be realized with the exception of \$55.2 million related to certain California and foreign deferred tax assets. However, ultimate realization could be negatively impacted by

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market conditions and other variables not known or anticipated at this time. If the valuation allowance related to deferred tax assets were released as of September 23, 2012, approximately \$55.2 million would be credited to the Statement of Operations.

Table of Contents**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, for dilutive stock options, RSUs, and convertible notes. The following table reconciles the numerators and denominators of the basic and diluted computations for net income per share.

	Three Months Ended	
	September 23, 2012	September 25, 2011
	(in thousands, except per share data)	
Numerator:		
Net income	\$ 2,768	\$ 71,838
Denominator:		
Basic average shares outstanding	179,928	123,130
Effect of potential dilutive securities:		
Employee stock plans	1,998	919
Diluted average shares outstanding	181,926	124,049
Net income per share basic	\$ 0.02	\$ 0.58
Net income per share diluted	\$ 0.02	\$ 0.58

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

	Three Months Ended	
	September 23, 2012	September 25, 2011
	(in thousands)	
Number of potential dilutive securities excluded	2,147	1,066

In addition to the above, diluted shares outstanding do not include any effect resulting from warrants, assumed conversion of the Notes, or note hedges (as described in Note 13) as their impact would have been anti-dilutive.

NOTE 12 ACCUMULATED OTHER COMPREHENSIVE LOSS

The balance of accumulated other comprehensive loss, on an after-tax basis where applicable, is as follows:

	September 23, 2012	June 24, 2012
	(in thousands)	
Accumulated foreign currency translation adjustment	\$ (26,606)	\$ (22,481)
Accumulated unrealized gain (loss) on derivative financial instruments	995	(212)
Accumulated unrealized gain (loss) on financial instruments	2,363	(308)
Postretirement benefit plan adjustment	(10,659)	(10,817)
Accumulated other comprehensive loss	\$ (33,907)	\$ (33,818)

Table of Contents**NOTE 13 LONG TERM DEBT**

The following table reflects the carrying value of the Company's convertible notes and other long-term debt as of September 23, 2012 and June 24, 2012:

	September 23, 2012	June 24, 2012
	<i>(in millions)</i>	
0.50% Notes due 2016	\$ 450.0	\$ 450.0
Less: Unamortized interest discount	(56.7)	(60.3)
Net carrying amount of 0.50% Notes 2016	393.3	389.7
1.25% Notes due 2018	450.0	450.0
Less: Unamortized interest discount	(87.1)	(90.4)
Net carrying amount of 1.25% Notes 2018	362.9	359.6
2.625% Notes due 2041	699.9	699.9
Less: Unamortized interest discount	(189.5)	(190.3)
Net carrying amount of 2.625% Notes 2041	510.4	509.6
Total long-term debt	\$ 1,266.6	\$ 1,258.9

Convertible Senior Notes

In May 2011, the Company issued and sold \$450.0 million in aggregate principal amount of 0.5% Convertible Senior Notes due May 2016 (the 2016 Notes) at par. At the same time, the Company issued and sold \$450.0 million in aggregate principal amount of 1.25% Convertible Senior Notes due May 2018 (the 2018 Notes) at par. The 2016 Notes and the 2018 Notes may be converted, under certain circumstances, based on an initial conversion rate of 15.8687 shares of common stock per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$63.02 per share of common stock). The net proceeds to the Company from the sale of the 2016 Notes and the 2018 Notes were \$835.5 million. The Company pays cash interest at an annual rate of 0.5% and 1.25%, respectively, on the 2016 Notes and the 2018 Notes, payable semi-annually on May 15 and November 15 of each year.

In June 2012, with the acquisition of Novellus Systems, Inc. (see Note 16), the Company assumed \$700.0 million in aggregate principal amount 2.625% Convertible Senior Notes due May 2041 (the 2041 Notes, and collectively with the 2016 Notes and the 2018 Notes, the Notes). The 2041 Notes may be converted, under certain circumstances, based on an initial conversion rate of 28.4781 shares of common stock per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$35.11 per share of common stock.). The Company pays cash interest at an annual rate of 2.625%, payable semi-annually on May 15 and November 15 of each year.

The Company separately accounts for the liability and equity components of the Notes. The initial debt components of the 2016 Notes, the 2018 Notes, and the 2041 Notes were valued at \$373.8 million, \$345.1 million, and \$509.5 million, respectively, based on the present value of the future cash flows using discount rates of 4.29%, 5.27%, and 4.28%, respectively, the Company's borrowing rate at the date of the issuance or assumption for similar debt instruments without the conversion feature. The carrying values of the equity components of the 2016 Notes, the 2018 Notes, and the 2041 Notes were \$76.2 million, \$104.9 million, and \$328.1 million, respectively as of September 23, 2012. The effective interest rates on the liability components of the 2016 Notes, the 2018 Notes, and the 2041 Notes for the three months ended September 23, 2012 were 4.29%, 5.27%, and 4.28% respectively. The following table presents the amount of interest cost recognized relating to both the contractual interest coupon and amortization of the discount on the liability component of the Notes during the three months ended September 23, 2012 and September 25, 2011.

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	Three Months Ended	
	September 23, 2012	September 25, 2011
	<i>(in millions)</i>	
Contractual interest coupon	\$ 6.6	\$ 2.0
Amortization of interest discount	7.8	6.6
Amortization of issuance costs	0.6	0.6
 Total interest cost recognized	 \$ 15.0	 \$ 9.2

The remaining bond discount of the 2016 Notes of \$56.7 million as of September 23, 2012 will be amortized over their remaining life, which is approximately 3.6 years. The remaining bond discount of the 2018 Notes of \$87.1 million as of September 23, 2012 will be amortized over their remaining life, which is approximately 5.6 years. The remaining bond discount of the 2041 Notes of \$189.5 million as of September 23, 2012 will be amortized over their remaining life, which is approximately 28.6 years. As of September 23, 2012, the if-converted value of the 2016 Notes, the 2018 Notes, and the 2041 Notes did not exceed the aggregate principal amount.

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The 2016 Notes may be converted at any time prior to the close of business on the business day immediately preceding February 15, 2016, at the option of the holder, only under the following circumstances: 1) during the five business-day period after any ten consecutive trading-day period (the measurement period) in which the trading price per \$1,000 principal amount of 2016 Notes for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day; 2) during any fiscal quarter commencing after the fiscal quarter ending September 25, 2011, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter; or 3) upon the occurrence of specified corporate events. On and after February 15, 2016 until the close of business on the second scheduled trading day immediately preceding the maturity date of May 15, 2016, holders may convert their notes at any time, regardless of the foregoing circumstances.

Upon conversion, a holder will receive the conversion value of the 2016 Notes to be converted equal to the conversion rate multiplied by the volume weighted average price of the Company's common stock during a specified period following the conversion date. The conversion value of each 2016 Note will be paid in: 1) cash equal to the principal amount of the note and 2) to the extent the conversion value exceeds the principal amount of the note, common stock (plus cash in lieu of any fractional shares of common stock). The conversion price will be subject to adjustment in some events but will not be adjusted for accrued interest. Upon a fundamental change at any time, as defined, the Company will in some cases increase the conversion rate for a holder who elects to convert its 2016 Notes in connection with such fundamental change. In addition, the holders may require the Company to repurchase for cash all or a portion of their notes upon a designated event at a price equal to 100% of the principal amount of the notes being repurchased plus accrued and unpaid interest, if any.

Concurrently with the issuance of the 2016 Notes, the Company purchased a convertible note hedge and sold warrants. The separate convertible note hedge and warrant transactions are collectively structured to reduce the potential future economic dilution associated with the conversion of the 2016 Notes and to increase the effective initial conversion price to \$71.34 per share. Each of these components is discussed separately below:

Convertible Note Hedge. Counterparties agreed to sell to the Company up to approximately 7.1 million shares of the Company's common stock, which is the number of shares initially issuable upon conversion of the 2016 Notes in full, at a price of \$63.02 per share. The convertible note hedge transaction will be settled in net shares and will terminate upon the earlier of the maturity date of the 2016 Notes or the first day none of the 2016 Notes remains outstanding due to conversion or otherwise. Settlement of the convertible note hedge in net shares, based on the number of shares issued upon conversion of the 2016 Notes, on the expiration date would result in the Company receiving net shares equivalent to the number of shares issuable by the Company upon conversion of the 2016 Notes. Should there be an early unwind of the convertible note hedge transaction, the number of net shares potentially received by the Company will depend upon 1) the then existing overall market conditions, 2) the Company's stock price, 3) the volatility of the Company's stock, and 4) the amount of time remaining before expiration of the convertible note hedge. The convertible note hedge transaction cost of \$76.2 million has been accounted for as an equity transaction. The Company initially recorded approximately \$28.2 million in stockholders' equity from the net deferred tax asset related to the convertible note hedge at inception of the transaction.

Sold Warrants. The Company received \$57.6 million from the same counterparties from the sale of warrants to purchase up to approximately 7.1 million shares of the Company's common stock at an exercise price of \$71.34 per share. The warrants expire on a series of dates between August 15, 2016 and October 21, 2016. At expiration, the Company may, at its option, elect to settle the warrants on a net share basis. As of September 23, 2012, the warrants had not been exercised and remained outstanding. The value of the warrants was initially recorded in equity and continues to be classified as equity.

2018 Notes

The 2018 Notes may be converted at any time prior to the close of business on the business day immediately preceding February 15, 2018, at the option of the holder only under the following circumstances: 1) during the five business-day period after any ten consecutive trading-day period (the measurement period) in which the trading price per \$1,000 principal amount of 2018 Notes for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day; 2) during any fiscal quarter commencing after the fiscal quarter ending September 25, 2011, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter; or 3) upon the occurrence of specified corporate events. On and after February 15, 2018 until the close of business on the second scheduled trading day immediately preceding the maturity date of May 15, 2018, holders may convert their notes at any time, regardless of the foregoing circumstances.

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Upon conversion, a holder will receive the conversion value of the 2018 Notes to be converted equal to the conversion rate multiplied by the volume weighted average price of the Company's common stock during a specified period following the conversion date. The conversion value of each 2018 Notes will be paid in: 1) cash equal to the principal amount of the note and 2) to the extent the conversion value exceeds the principal amount of the note, common stock (plus cash in lieu of any fractional shares of common stock). The conversion price will be subject to

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adjustment in some events but will not be adjusted for accrued interest. Upon a fundamental change at any time, as defined, the Company will in some cases increase the conversion rate for a holder who elects to convert its 2018 Notes in connection with such fundamental change. In addition, the holders may require the Company to repurchase for cash all or a portion of their notes upon a designated event at a price equal to 100% of the principal amount of the notes being repurchased plus accrued and unpaid interest, if any.

Concurrently with the issuance of the 2018 Notes, the Company purchased a convertible note hedge and sold warrants. The separate convertible note hedge and warrant transactions are collectively structured to reduce the potential future economic dilution associated with the conversion of the 2018 Notes and to increase the effective initial conversion price to \$76.10 per share. Each of these components is discussed separately below:

Convertible Note Hedge. Counterparties agreed to sell to the Company up to approximately 7.1 million shares of the Company's common stock, which is the number of shares initially issuable upon conversion of the 2018 Notes in full, at a price of \$63.02 per share. The convertible note hedge transaction will be settled in net shares and will terminate upon the earlier of the maturity date of the 2018 Notes or the first day none of the 2018 Notes remains outstanding due to conversion or otherwise. Settlement of the convertible note hedge in net shares, based on the number of shares issued upon conversion of the 2018 Notes, on the expiration date would result in the Company receiving net shares equivalent to the number of shares issuable by the Company upon conversion of the 2018 Notes. Should there be an early unwind of the convertible note hedge transaction, the number of net shares potentially received by the Company will depend upon 1) the then existing overall market conditions, 2) the Company's stock price, 3) the volatility of the Company's stock, and 4) the amount of time remaining before expiration of the convertible note hedge. The convertible note hedge transaction cost of \$104.9 million has been accounted for as an equity transaction. The Company initially recorded approximately \$38.8 million in stockholders' equity from the net deferred tax asset related to the convertible note hedge at inception of the transaction.

Sold Warrants. The Company received \$76.3 million from the same counterparties from the sale of warrants to purchase up to approximately 7.1 million shares of the Company's common stock at an exercise price of \$76.10 per share. The warrants expire on a series of dates between August 15, 2018 and October 23, 2018. At expiration, the Company may, at its option, elect to settle the warrants on a net share basis. As of September 23, 2012, the warrants had not been exercised and remained outstanding. The value of the warrants was initially recorded in equity and continues to be classified as equity.

2041 Notes

The 2041 Notes may be converted at any time prior to the close of business on the business day immediately preceding February 15, 2041, at the option of the holder, only under the following circumstances: 1) during the five business-day period after any ten consecutive trading-day period (the measurement period) in which the trading price per \$1,000 principal amount of 2041 notes for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day; 2) during any fiscal quarter, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter; or 3) upon the occurrence of specified corporate events. On and after February 15, 2041 until the close of business on the third scheduled trading day immediately preceding the maturity date of May 15, 2041, holders may convert their notes at any time, regardless of the foregoing circumstances.

In connection with the acquisition of Novellus in June 2012, the 2041 Notes could have been converted into the Company's common stock at any time from and after the later of (1) the date that was 30 scheduled trading days immediately prior to the anticipated closing date of the merger and (2) the date on which we delivered to the note holders notice of the merger, until 35 business days after the actual closing date of the merger, or July 24, 2012. Accordingly, the carrying amount of the 2041 Notes was classified in current liabilities in our Consolidated Balance Sheet as of June 24, 2012. The excess of the amount of cash payable, if converted, over the carrying amount of the 2041 Notes was classified as temporary equity as of June 24, 2012. When the conversion period closed, on July 24, 2012, all 2041 Notes not converted were reclassified back to noncurrent liabilities and the temporary equity was reclassified to permanent equity. During the period ending June 24, 2012, 65 of the 2041 Notes, with a total par value of \$65,000, were converted at the note holders' option. In conjunction with the conversion, 137 shares of common stock were issued.

Upon conversion, a holder will receive the conversion value of the 2041 Notes to be converted equal to the conversion rate multiplied by the volume weighted average price of the Company's common stock during a specified period following the conversion date. The conversion value of each 2041 Note will be paid in: 1) cash equal to the principal amount of the note and 2) to the extent the conversion value exceeds the principal amount of the note, common stock (plus cash in lieu of any fractional shares of common stock). The conversion price will be subject to adjustment in some events but will not be adjusted for accrued interest. Upon a fundamental change at any time, as defined, the Company will in some cases increase the conversion rate for a holder who elects to convert its 2041 Notes in connection with such fundamental change. In addition, the holders may require the Company to repurchase for cash all or a portion of their notes upon a designated event at a price equal to

100% of the principal amount of the notes being repurchased plus accrued and unpaid interest, if any.

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On or after May 21, 2021, we may redeem all or part of the 2041 Notes for the principal plus any accrued and unpaid interest if the closing price of our common stock has been at least 150% of the conversion price then in effect for at least 20 trading days during any period of 30 consecutive trading days prior to the date on which we provide notice of redemption.

The 2041 Notes also have a contingent interest payment provision that may require us to pay additional interest based on certain thresholds, beginning with the semi-annual interest payment commencing on May 15, 2021, and upon the occurrence of certain events, as outlined in the indenture governing the 2041 Notes. The maximum amount of the contingent interest will accrue at a rate of 2.1% per annum, excluding any potential impact from dividends deemed payable to holders of the 2041 Notes. The contingent interest payment provision has been identified as an embedded derivative, to be accounted for separately, and is recorded at fair value at the end of each reporting period in Other non-current liabilities, with any gains and losses recorded in Interest expense, within the Condensed Consolidated Statements of Operations.

Fair Value of Notes

As of September 23, 2012, the face values of the 2016 Notes, the 2018 Notes, and the 2041 Notes were \$450.0 million, \$450.0 million, and \$699.9 million, respectively. As of September 23, 2012, the fair values of the 2016 Notes, the 2018 Notes, and the 2041 Notes, which includes the debt and equity components, were approximately \$431.1 million, \$440.1 million, and \$792.1 million respectively, based on quoted market prices (level 1 inputs within the fair value hierarchy).

Contractual Obligations

The Company's contractual cash obligations relating to its convertible notes as of September 23, 2012 were as follows:

	Long-term Debt
	<i>(in thousands)</i>
Payments due by period:	
One year	\$
Two years	
Three years	
Four years	450,000
Five years	
Over 5 years	1,149,935
Total Long-term debt	\$ 1,599,935

NOTE 14 COMMITMENTS**Capital Leases**

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

The Company's contractual cash obligations relating to its existing capital leases, including interest, as of September 23, 2012 were as follows:

	Capital Leases
	<i>(in thousands)</i>
Payments due by period:	
One year	\$ 1,751
Two years	1,554
Three years	1,519
Four years	9,579

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Five years	
Over 5 years	
Total	14,403
Less: Interest on capital leases	706
Less: Current portion of capital leases	1,521
Long-term portion of capital leases	\$ 12,176

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Operating Leases and Related Guarantees

The Company leases certain of its administrative, R&D and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases. Certain of the Company's facility leases for buildings located at its Fremont, California headquarters and certain other facility leases provide the Company with options to extend the leases for additional periods or to purchase the facilities. Certain of the Company's facility leases provide for periodic rent increases based on the general rate of inflation.

On December 18, 2007, the Company entered into two operating leases regarding certain improved properties in Livermore, California. These leases were amended on April 3, 2008 and July 9, 2008 (as so amended, the "Livermore Leases"). On December 21, 2007, the Company entered into a series of four amended and restated operating leases (the "New Fremont Leases," and collectively with the Livermore Leases, the "Operating Leases") with regard to certain improved properties at the Company's headquarters in Fremont, California.

The Operating Leases have a term of approximately seven years ending on the first business day in January 2015. The Company may, at its discretion and with 30 days' notice, elect to purchase the property that is the subject of the Operating Lease for an amount approximating the sum required to pay the amount of the lessor's investment in the property and any accrued but unpaid rent.

The Company is required, pursuant to the terms of the Operating Leases, to maintain collateral in an aggregate of approximately \$164.9 million in separate interest-bearing accounts as security for the Company's obligations under the Operating Leases. This amount is recorded as restricted cash in the Company's Consolidated Balance Sheet as of as of September 23, 2012.

When the terms of the Operating Leases expire, the property subject to that Operating Lease may be remarketed. The Company has guaranteed to the lessor that each property will have a certain minimum residual value. The aggregate guarantee made by the Company under the Operating Leases is generally no more than approximately \$141.7 million; however, under certain default circumstances, the guarantee with regard to an Operating Lease may be 100% of the lessor's aggregate investment in the applicable property, which in no case will exceed \$164.9 million, in the aggregate.

The Company recognized at lease inception \$0.6 million in estimated liabilities related to the Operating Leases, which represents the fair value guarantee premium that would be required had the guarantee been issued in a standalone transaction. These liabilities are recorded in other long-term liabilities with the offsetting entry recorded as prepaid rent in other assets. The balances in prepaid rent and the guarantee liability are amortized to the Statement of Operations on a straight line basis over the life of the leases. If it becomes probable that the Company will be required to make a payment under the residual guarantee, the Company will increase its liability with a corresponding increase to prepaid rent and amortize the increased prepaid rent over the remaining lease term with no corresponding reduction in the liability. As of September 23, 2012, the unamortized portion of the fair value of the residual value guarantees remaining in other long-term liabilities and prepaid rent was \$0.2 million.

Other Guarantees

The Company has issued certain indemnifications to its lessors for taxes and general liability under some of its agreements. The Company has entered into certain insurance contracts that may limit its exposure to such indemnifications. As of September 23, 2012, the Company had not recorded any liability on its Consolidated Financial Statements in connection with these indemnifications, as it does not believe, based on information available, that it is probable that any amounts will be paid under these guarantees.

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

The Company provides guarantees and standby letters of credit to certain parties as required for certain transactions initiated during the ordinary course of business. As of September 23, 2012, the maximum potential amount of future payments that we could be required to make under these arrangements and letters of credit was \$16.6 million. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid.

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

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

	Three Months Ended	
	September 23,	September 25,
	2012	2011
	(in thousands)	
Balance at beginning of period	\$ 70,161	\$ 40,951
Warranties issued during the period	19,692	7,932
Settlements made during the period	(24,375)	(11,221)
Changes in liability for pre-existing warranties	2,358	(1,502)
Balance at end of period	\$ 67,836	\$ 36,160
Less: Long-term portion	(6,830)	
Accrued warranty, current	\$ 61,006	\$ 36,160

NOTE 15 RESTRUCTURING AND ASSET IMPAIRMENTS

Prior to incurring charges under the restructuring plans discussed below, management approved and announced the specific actions to be taken under each plan. Severance packages were communicated to affected employees in sufficient detail that the employees could determine their type and amount of benefit. The termination of the affected employees occurred as soon as practical after the restructuring plans were announced. The amount of remaining future lease payments for facilities the Company ceased to use and included in the restructuring charges is based on management's estimates using known prevailing real estate market conditions at that time based, in part, on the opinions of independent real estate experts. Leasehold improvements relating to the vacated buildings were written off, as these items will have no future economic benefit to the Company and have been abandoned.

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

There were no restructuring and asset impairment charges during the three months ended September 23, 2012. During the three months ended September 25, 2011, the Company incurred an asset impairment charge of \$1.7 million related to a decline in the market value of certain facilities, which was recorded in operating expenses within the Consolidated Statements of Operations.

March 2009 Plan

Beginning in the March 2009 quarter, the Company incurred restructuring expenses and asset impairment charges designed to align the Company's cost structure with its outlook for the current economic environment and future business opportunities (March 2009 Plan). There were no charges incurred under the March 2009 Plan during the three months ended September 23, 2012 or September 25, 2011. Total charges incurred through September 23, 2012 under the March 2009 Plan were \$61.3 million.

The remaining liability balance under the March 2009 Plan was \$27.7 million as of both September 23, 2012 and June 24, 2012 and related to lease payments, net of sublease income, on vacated buildings. This balance expected to be paid by the end of fiscal year 2015.

Acquired Restructuring Liabilities

In addition to restructuring plans initiated by the Company, a restructuring liability of \$11.2 million was assumed in the Novellus acquisition, related to future rent obligations on unoccupied facilities. No restructuring expenses have been recognized related to this obligation subsequent to acquisition. The liability balance as of September 23, 2012 was \$10.5 million.

NOTE 16 BUSINESS COMBINATIONS

On June 4, 2012 (the acquisition date), the Company acquired all of the outstanding common shares of Novellus in an all-stock transaction valued at approximately \$3.0 billion. The results of Novellus operations have been included in the consolidated financial statements from the date of acquisition. Lam's primary reasons for this acquisition were to complement existing product offerings and to provide opportunities for revenue and cost synergies. Novellus primary business focus is to develop, manufacture, sell and support equipment used in the fabrication of integrated circuits, commonly called semiconductors. Customers for this equipment manufacture semiconductors for sale or for incorporation in their own products, or provide semiconductor-manufacturing services to third parties. Novellus also develops, manufactures, sells and supports grinding, lapping and polishing equipment for a broad spectrum of industrial applications.

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The table below details the consideration transferred to acquire Novellus:

(in thousands, except per share amounts)	Conversion Calculation	Estimated Fair Value
Lam common stock issued at merger	82,689	
Per share price of Lam common stock as of June 4, 2012	\$ 35.99	\$ 2,975,977
Estimated fair value of vested Lam equivalent restricted stock (1)		\$ 9,599
Estimated fair value of vested Lam equivalent stock options (2)		41,412
Estimated purchase price consideration		\$ 3,026,988

- (1) The fair value of Lam Research equivalent restricted stock as of the acquisition date was estimated based upon the per share price of Lam Research common stock as of June 4, 2012, and giving effect to the exchange ratio of 1.125.
- (2) The fair value of the Lam Research equivalent stock options as of the acquisition date was estimated using the Black-Scholes valuation model. Assumptions used are the same as those for acquired awards as disclosed in Note 11 of Notes to Condensed Consolidated Financial Statements.

Net Assets Acquired

The transaction has been accounted for using the acquisition method of accounting which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the assets acquired and liabilities assumed as of the acquisition date:

	June 4, 2012 (in thousands)
Cash and investments	\$ 1,059,859
Accounts receivable	241,924
Inventory	309,213
Other current assets	56,314
Property and equipment	289,126
Intangible assets	1,219,100
Goodwill	1,277,121
Other long-term assets	35,826
Total assets acquired	4,488,483
Accounts payable	(83,028)
Accrued expenses and other current liabilities	(196,677)
Deferred revenue	(20,388)
Debt	(509,805)
Other long-term liabilities	(323,471)
Convertible notes equity component	(328,126)
Net assets acquired	\$ 3,026,988

The goodwill recognized is attributable primarily to expected synergies and other benefits that the Company believes will result from combining the operations of Novellus with the operations of Lam. The \$1.3 billion goodwill that was acquired is not expected to be deductible for income tax purposes. As of September 23, 2012, there were no changes in the recognized amounts of goodwill resulting from the acquisition of

Novellus.

Preliminary Pre-Acquisition Contingencies Assumed

We have evaluated and continue to evaluate pre-acquisition contingencies relating to Novellus that existed as of the acquisition date. We have determined that certain of these pre-acquisition contingencies are probable in nature and estimable as of the acquisition date and, accordingly, have preliminarily recorded our best estimates for these contingencies as a part of the purchase price allocation for Novellus. We continue to gather information for and evaluate these pre-acquisition contingencies, primarily related to tax positions that we have assumed from Novellus. If we make changes to the amounts recorded or identify additional pre-acquisition contingencies during the remainder of the measurement period, such amounts recorded will be included in the purchase price allocation during the measurement period and, subsequently, in our results of operations.

NOTE 17 STOCK REPURCHASE PROGRAM

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

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Repurchases under the repurchase program were as follows during the periods indicated:

Period	Total Number of Shares Repurchased	Total Cost of Repurchase (in thousands, except per share data)	Average Price Paid Per Share*	Amount Available Under Repurchase Program
Available balance as of June 24, 2012				\$ 911,933
Quarter ended September 23, 2012	11,970	\$ 344,001	\$ 34.79	\$ 567,932

* Average price paid per share excludes accelerated share repurchases for which cost was incurred in fiscal year 2012, but shares were received in fiscal year 2013. See *Collared Accelerated Share Repurchases* section below for details regarding average price associated with these transactions.

In addition to shares repurchased under Board authorized repurchase program shown above, the Company acquired 128,000 shares at a total cost of \$4.4 million which the Company withheld through net share settlements to cover minimum tax withholding obligations upon the vesting of restricted stock unit awards granted under the Company's equity compensation plans. The shares retained by the Company through these net share settlements are not a part of the Board-authorized repurchase program but instead are authorized under the Company's equity compensation plans.

As part of its share repurchase program, the Company may from time-to-time enter into structured share repurchase arrangements with financial institutions using general corporate funds. Such arrangements entered into or settled during the three months ended September 23, 2012 included the following.

Collared Accelerated Share Repurchases

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

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

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

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

minimum shares already received, which represented a weighted average share price of approximately \$36.12 for the transaction period.

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NOTE 18 LEGAL PROCEEDINGS

The Company is either a defendant or plaintiff in various actions that have arisen from time to time in the normal course of business, including intellectual property claims. The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, the Company believes that the amount of any such additional loss would be immaterial to the Company's business, financial condition, and results of operations.

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Certain, but not all, of the forward-looking statements in this report are specifically identified as forward-looking, by use of phrases and words such as we believe, we anticipate, we expect, may, should, could and other future-oriented terms. The identification of certain statements as forward-looking is not intended to mean that other statements not specifically identified are not forward-looking. Forward-looking statements include, but are not limited to, statements that relate to: trends in the global economic environment and the semiconductor industry; the anticipated levels of, and rates of change in, future shipments, margins, market share, capital expenditures, revenue and operating expenses generally; volatility in our quarterly results; customer requirements and our ability to satisfy those requirements; customer capital spending and their demand for our products; our ability to defend our market share and to gain new market share; anticipated growth in the industry and the total market for wafer-fabrication equipment and our growth relative to such growth; levels of research and development (R&D) expenditures; the estimates we make, and the accruals we record, in order to implement our critical accounting policies (including but not limited to the adequacy of prior tax payments, future tax liabilities and the adequacy of our accruals relating to them); our access to capital markets; our ability to manage and grow our cash position; and the sufficiency of our financial resources to support future business activities (including but not limited to operations, investments, debt service requirements and capital expenditures). Such statements are based on current expectations and are subject to risks, uncertainties, and changes in condition, significance, value, and effect, including without limitation those discussed below under the heading Risk Factors within Part II Item 1A and elsewhere in this report and other documents we file from time to time with the Securities and Exchange Commission (SEC), such as our annual report on Form 10-K for the year ended June 24, 2012 (our 2012 Form 10-K) and our current reports on Form 8-K. Such risks, uncertainties and changes in condition, significance, value, and effect could cause our actual results to differ materially from those expressed in this report and in ways 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 that 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 Discussion and Analysis Of Financial Condition and Results Of Operations

For a full understanding of our financial position and results of operations for the three months ended September 23, 2012, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations below, you should also read the Condensed Consolidated Financial Statements and notes presented in this Form 10-Q and the financial statements and notes in our 2012 Form 10-K.

Overview

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

Executive Summary provides an overview of the Company's operations and a summary of certain 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 we use to prepare our Condensed Consolidated Financial Statements

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

EXECUTIVE SUMMARY

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

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The semiconductor capital equipment industry is cyclical in nature and has historically experienced periodic and pronounced changes in customer demand resulting in industry downturns and upturns. Today's leading indicators of change in customer investment patterns, such as electronics demand, memory pricing, and foundry utilization rates, may not be any more reliable than in prior years. Demand for our equipment can vary significantly from period to period as a result of various factors, including, but not limited to, economic conditions (both general and in the semiconductor and electronics industries), supply, demand, prices for semiconductors, customer capacity requirements, and our ability to develop, acquire, and market competitive products. For these and other reasons, our results of operations during any particular fiscal period are not necessarily indicative of future operating results.

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Demand for our products has declined during this calendar year as certain semiconductor device manufacturers, particularly memory manufacturers, reduced their investments in capital equipment in response to weaker macroeconomic conditions. We believe that, over the long term, demand for our products will increase as customers' capital expenditures rise to address the increasing complexity of semiconductor device manufacturing and meet growing demand for semiconductor devices, particularly in the mobility space.

The following table summarizes certain key financial information for the periods indicated below (in thousands, except percentage and per share data):

	Three Months Ended		
	September 23, 2012	June 24, 2012	September 25, 2011
Revenue	\$ 906,888	\$ 741,814	\$ 680,436
Gross margin	\$ 333,886	\$ 298,213	\$ 283,883
Gross margin as a percent of revenue	36.8%	40.2%	41.7%
Total operating expenses	\$ 317,174	\$ 265,543	\$ 184,484
Net income	\$ 2,768	\$ 18,069	\$ 71,838
Diluted net income per share	\$ 0.02	\$ 0.13	\$ 0.58

In the quarter ended September 23, 2012, revenue increased as compared to the quarter ended June 24, 2012 reflecting the first full quarter of operations post-acquisition of Novellus Systems, Inc. (Novellus). Gross margin as a percent of revenues decreased in the September 2012 quarter as compared to the June 2012 quarter as a result of the first full quarter of acquisition-related inventory fair value adjustments and amortization of acquired intangible assets. Operating expenses in the September 2012 quarter increased as compared to the quarter ended June 2012, primarily reflecting a full quarter of post-acquisition activity as a combined company.

Our cash and cash equivalents, short-term investments, and restricted cash and investments balances totaled approximately \$2.9 billion as of September 23, 2012 compared to \$3.0 billion as of June 24, 2012. Cash generated by operations was approximately \$249 million during the September 2012 quarter. We used cash during the September 2012 quarter to repurchase \$355 million of our shares and purchase \$44 million of property and equipment. Employee headcount was approximately 6,600 as of both September 23, 2012 and June 24, 2012.

RESULTS OF OPERATIONS*Shipments*

	Three Months Ended		
	September 23, 2012	June 24, 2012	September 25, 2011
Shipments (in millions)	\$ 935	\$ 816	\$ 580
Taiwan	29%	29%	10%
Asia Pacific	22%	12%	15%
North America	18%	15%	22%
Korea	16%	31%	27%
Japan	8%	7%	16%
Europe	7%	6%	10%

Shipments for the September 2012 quarter increased 15% compared to the June 2012 quarter and increased 61% year over year, reflecting the first full quarter of operations post-acquisition of Novellus. During the September 2012 quarter, applications below the 40 nanometer technology node were 81% of total systems shipments. The system shipments in the memory, foundry, and logic/integrated device manufacturing markets were approximately 42%, 48% and 10%, respectively.

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	Three Months Ended		
	September 23, 2012	June 24, 2012	September 25, 2011
Revenue (in millions)	\$ 907	\$ 742	\$ 680
Taiwan	28%	24%	13%
Korea	24%	38%	25%
North America	18%	13%	19%
Asia Pacific	15%	11%	14%
Japan	8%	7%	18%
Europe	7%	7%	11%

Revenue for the September 2012 quarter increased 22% compared to the June 2012 quarter and 33% as compared to the September 2011 quarter, reflecting the first full quarter of operations post-acquisition of Novellus. Our deferred revenue balance increased to \$364 million as of September 23, 2012 compared to \$335 million as of June 24, 2012. Our deferred revenue balance does not include shipments to Japanese customers, to whom title does not transfer until customer acceptance. Shipments to Japanese customers are classified as inventory at cost until the time of acceptance. The anticipated future revenue value from shipments to Japanese customers was approximately \$21 million as of September 23, 2012 compared to \$23 million as of June 24, 2012.

Gross Margin

	Three Months Ended		
	September 23, 2012	June 24, 2012	September 25, 2011
	(in thousands, except percentages)		
Gross margin	\$ 333,886	\$ 298,213	\$ 283,883
Percent of revenue	36.8%	40.2%	41.7%

The decrease in gross margin as a percentage of revenue during the September 2012 quarter as compared to the June 2012 quarter is primarily due to the first full quarter of Novellus acquisition-related inventory fair value adjustments, which increased from approximately \$6 million to \$44 million, and amortization of acquired Novellus intangible assets, which increased from approximately \$5 million to \$21 million.

The decrease in gross margin as a percentage of revenue during the September 2012 quarter as compared to the September 2011 quarter is primarily due to acquisition-related inventory fair value adjustments of approximately \$44 million and amortization of acquired intangible assets of approximately \$21 million, which did not occur in the September 2011 quarter.

Research and Development

	Three Months Ended		
	September 23, 2012	June 24, 2012	September 25, 2011
	(in thousands, except percentages)		
Research and development (R&D)	\$ 163,311	\$ 124,528	\$ 102,559
Percent of revenue	18.0%	16.8%	15.1%

We continue to make significant R&D investments focused on leading-edge plasma etch, single-wafer clean, deposition, and other semiconductor manufacturing requirements. The increase in R&D expenses during the September 2012 quarter compared to the June 2012 quarter was primarily a reflection of the full quarter impact of combined operations with Novellus and included a \$19 million increase in employee compensation and benefits, a \$5 million increase in depreciation and amortization, and a \$4 million increase in supplies and facilities costs.

September 2012 reflects a full quarter impact of combined operations with Novellus, while 2011 reflects Lam standalone. The increase in R&D expenses during the September 2012 quarter compared to the same period in the prior year was primarily due to a \$31 million increase in

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employee compensation and benefits, mainly as a result of higher headcount, an \$8 million increase in supplies and facilities costs, a \$7 million increase in depreciation and amortization, and a \$5 million increase in outside services.

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

	Three Months Ended		
	September 23, 2012	June 24, 2012	September 25, 2011
	(in thousands, except percentages)		
Selling, general and administrative (SG&A)	\$ 153,863	\$ 141,015	\$ 80,200
Percent of revenue	17.0%	19.0%	11.8%

The increase in SG&A expenses during the September 2012 quarter compared to the June 2012 quarter was primarily due to the full quarter impact of combined operations with Novellus, including a \$33 million increase in employee compensation and benefits, a \$15 million increase in intangible asset amortization, and an \$8 million increase in supplies and facilities costs; offset by a \$33 million reduction in integration and acquisition-related costs.

The increase in SG&A expenses in the September 2012 quarter compared to the same period in the prior year was primarily due to a \$46 million increase in employee compensation and benefits, a \$19 million increase in intangible asset amortization related to a full quarter impact of combined operations with Novellus, and \$12 million in costs associated with integration activities.

Restructuring and Asset Impairments

There were no restructuring and asset impairment charges during the three months ended September 23, 2012 or June 24, 2012. During the three months ended September 25, 2011, the Company incurred an asset impairment charge of \$1.7 million related to a decline in the market value of certain facilities, which was recorded in operating expenses within the Consolidated Statements of Operations.

Other Income (Expense), Net

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

	Three Months Ended		
	September 23, 2012	June 24, 2012	September 25, 2011
	(in thousands)		
Interest income	\$ 3,800	\$ 4,121	\$ 2,589
Interest expense	(15,144)	(10,934)	(9,260)
Gains (losses) on deferred compensation plan related assets	2,741	(1,418)	(1,865)
Foreign exchange gain (loss)	(368)	961	(1,090)
Other, net	(967)	(2,619)	(2,447)
	\$ (9,938)	\$ (9,889)	\$ (12,073)

Interest expense increased in the September 2012 quarter as compared to the June 2012 and September 2011 quarters due to the 2041 Notes assumed in June 2012 in connection with the Novellus acquisition.

In the September 2012 quarter, we recognized gains on assets which are related to obligations under our deferred compensation plan, whereas during the June 2012 and September 2011 quarters we recognized losses on assets due to changes in the market value of securities in this portfolio.

Income Tax Expense

Our tax expense for the three months ended September 23, 2012 and September 25, 2011 were \$4.0 million and \$15.5 million based on effective income tax rates of 59.1% and 17.7% of pre-tax income. The increase in the effective tax rate for the three months ended September 23, 2012 compared to the three months ended September 25, 2011 was primarily due to the reduced level of income and an increase in the percentage of profits in jurisdictions with higher tax rates and the treatment of integration expenses as a discrete event in determining the effective tax rate. In

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In addition, the U.S. federal research and development tax credit expired as of December 31, 2011 and no tax benefit has been included in the calculation of the annual effective tax rate for the fiscal year ending June 30, 2013. The effective tax rate of 59.1% for the three months ended September 23, 2012 includes the tax impact of discrete items which primarily consisted of the effective tax rate impact of \$17 million of integration expenses for which little tax benefit is derived and a tax expense of \$1.5 million of interest related to uncertain tax positions. The effective tax rate of 17.7% for the three months ended September 25, 2011 includes the tax impact of the following discrete items which are recorded in the period in which they occur: (1) a tax expense of \$1.6 million related to the filing of prior year foreign tax returns and state amended tax returns and (2) a tax expense of \$0.9 million of interest related to uncertain tax positions.

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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 \$342.4 million and \$253.7 million as of September 23, 2012 and June 24, 2012, respectively. The gross deferred tax assets were offset by deferred tax liabilities of \$362.6 million and a valuation allowance of \$55.2 million as of September 23, 2012. The gross deferred tax assets were offset by deferred tax liabilities of \$285.6 million and a valuation allowance of \$55.2 million as of June 24, 2012.

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

Uncertain Tax Positions

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A critical accounting policy is defined as one that has both a material impact on our financial condition and results of operations and requires us to make difficult, complex and/or subjective judgments, often as a result of the need to make estimates about matters that are inherently uncertain. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make certain judgments, estimates and assumptions that could affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We based our estimates and assumptions on historical experience and on various other assumptions we believed to be applicable and evaluate them on an ongoing basis to ensure they remain reasonable under current conditions. Actual results could differ significantly from those estimates, which could have a material impact on our business, results of operations, and financial condition.

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

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

Inventory Valuation: Inventories are stated at the lower of cost or market using standard costs that generally approximate actual costs on a first-in, first-out basis. We maintain a perpetual inventory system and continuously record the quantity on-hand and standard cost for each product, including purchased components, subassemblies, and finished goods. We maintain the integrity of perpetual inventory records through

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periodic physical counts of quantities on hand. Finished goods are reported as inventories until the point of title transfer to the customer. Generally, title transfer is documented in the terms of sale. Unless specified in the terms of sale, title generally transfers when we complete physical transfer of the products to the freight carrier. Transfer of title for shipments

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to Japanese customers generally occurs at the time of customer acceptance. We eliminate all intercompany profits related to the sales and purchases of inventory between our legal entities from our Consolidated Financial Statements.

Management evaluates the need to record adjustments for impairment of inventory at least quarterly. Our policy is to assess the valuation of all inventories including manufacturing raw materials, work-in-process, finished goods, and spare parts in each reporting period. Obsolete inventory or inventory in excess of management's estimated usage requirements over the next 12 to 36 months is written down to its estimated market value if less than cost. Estimates of market value include, but are not limited to, management's forecasts related to our future manufacturing schedules, customer demand, technological and/or market obsolescence, general semiconductor market conditions, and possible alternative uses. If future customer demand or market conditions are less favorable than our projections, additional inventory write-downs may be required and would be reflected in cost of goods sold in the period in which we make the revision.

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

Actual warranty expenses are accounted for on a system-by-system basis and may differ from our original estimates. While we periodically monitor the performance and cost of warranty activities, if actual costs incurred are different than our estimates, we may recognize adjustments to provisions in the period in which those differences arise or are identified. In addition to the provision of standard warranties, we offer customer-paid extended warranty services. Revenues for extended maintenance and warranty services with a fixed payment amount are recognized on a straight-line basis over the term of the contract. Related costs are recorded as incurred.

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

We make quarterly assessments of the adequacy of our tax credit pool related to equity-based compensation to determine if there are any deficiencies that we are required to recognize in our Consolidated Statements of Operations. We will only recognize a benefit from stock-based compensation in paid-in-capital if we realize an incremental tax benefit after all other tax attributes currently available to us have been utilized. In addition, we have elected to account for the indirect benefits of stock-based compensation on the research tax credit through the income statement (continuing operations) rather than through paid-in-capital. We have also elected to net deferred tax assets and the associated valuation allowance related to net operating loss and tax credit carryforwards for the accumulated stock award tax benefits for income tax footnote disclosure purposes. We will track these stock award attributes separately and will only recognize these attributes through paid-in-capital.

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

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

We recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. Please refer to Note 10 of the Notes to the Consolidated Financial Statements for additional information.

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In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of 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 such determination is made.

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

We review goodwill at least annually for impairment. If certain events or indicators of impairment occur between annual impairment tests, we would perform an impairment test of goodwill at that date. In testing for a potential impairment of goodwill, we: (1) allocate goodwill to our reporting units to which the acquired goodwill relates; (2) estimate the fair value of our reporting units; and (3) determine the carrying value (book value) of those reporting units, as some of the assets and liabilities related to those reporting units are not held by those reporting units but by a corporate function. Prior to this allocation of the assets to the reporting units, we are required to assess long-lived assets for impairment. Furthermore, if the estimated fair value of a reporting unit is less than the carrying value, we must estimate the fair value of all identifiable assets and liabilities of that reporting unit, in a manner similar to a purchase price allocation for an acquired business. This can require independent valuations of certain internally generated and unrecognized intangible assets such as in-process R&D and developed technology. Only after this process is completed can the amount of goodwill impairment, if any, be determined. Beginning with our fiscal year 2012 goodwill impairment analysis, we adopted new accounting guidance that allowed us to first assess qualitative factors to determine whether it was necessary to perform a quantitative analysis. Under the revised guidance, an entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount.

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

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

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

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

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued new authoritative guidance that increases the prominence of items reported in other comprehensive income (OCI) by eliminating the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We adopted this guidance in the September 2012 quarter. The implementation of this authoritative guidance did not have an impact on our financial position or results of operations, but did change the presentation of our financial statements.

LIQUIDITY AND CAPITAL RESOURCES

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As of September 23, 2012, we had \$2.9 billion in cash and cash equivalents, short-term investments, and restricted cash and investments (total cash and investments) compared to \$3.0 billion as of June 24, 2012.

Table of Contents***Cash Flows from Operating Activities***

Net cash provided by operating activities of \$249.3 million during the three months ended September 23, 2012 consisted of (in millions):

Net income	\$ 2.8
Non-cash charges:	
Depreciation and amortization	74.8
Equity-based compensation	24.4
Amortization of convertible note discount	7.8
Deferred income taxes	(12.0)
Changes in operating asset and liability accounts	143.1
Other	8.4
	\$ 249.3

Changes in operating asset and liability accounts, net of foreign exchange impact, included the following sources of cash: decreases in accounts receivable of \$125.4 million, inventories of \$65.5 million, and prepaid and other assets of \$5.4 million and increases in deferred profit of \$43.5 million and accrued liabilities of \$13.9 million, partially offset by a use of cash resulting from a \$110.4 million decrease in trade accounts payable.

Cash Flows from Investing Activities

Net cash used for investing activities during the three months ended September 23, 2012 was \$60.5 million, primarily consisting of capital expenditures of \$44.0 million and net purchases of available-for-sale securities of \$16.6 million.

Cash Flows from Financing Activities

Net cash used for financing activities during the three months ended September 23, 2012 was \$344.9 million, primarily consisting of \$355.1 million in treasury stock repurchases partially offset by net proceeds from issuance of common stock related to employee equity-based plans of \$10.9 million.

Liquidity

Given the cyclical nature of the semiconductor equipment industry, we believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in R&D and capital infrastructure. Based upon our current business outlook, we expect that our levels of cash, cash equivalents, and short-term investments at September 23, 2012 will be sufficient to support our anticipated levels of operations, investments, debt service requirements, and capital expenditures, through at least the next 12 months.

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

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

For financial market risks related to changes in interest rates, marketable equity security prices, and foreign currency exchange rates, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk", in our 2012 Form 10-K. Other than noted below, our exposure related to market risk has not changed materially since June 24, 2012. All of the potential changes noted below are based on sensitivity analyses performed on our financial position as of September 23, 2012. Actual results may differ materially.

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Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio, long-term debt, and operating 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 positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to achieve portfolio liquidity and maintain a prudent amount of diversification.

We conduct business on a global basis in several major international currencies. As such, we are potentially exposed to adverse as well as beneficial movements in foreign currency exchange rates. The majority of our revenues and expenses are denominated in U.S. dollars except for certain revenues denominated in Japanese yen, certain revenues and expenses denominated in the Euro, certain spares and service contracts denominated in various currencies, and expenses related to our non-U.S. sales and support offices denominated in the related countries' local currency. We currently enter into foreign currency forward contracts to minimize the short-term impact of foreign currency exchange rate fluctuations on Japanese yen-denominated revenue and monetary asset and liability exposure, Euro-denominated expenses and monetary assets and liabilities, as well as monetary assets and liabilities denominated in Swiss francs, Taiwanese dollars, and Great British pounds. We currently believe these are our primary exposures to currency rate fluctuation.

We enter into foreign currency forward contracts to hedge the gains and losses generated by the remeasurement of Japanese yen, Euros, Swiss franc, Taiwanese dollar, and Great British pound -denominated monetary assets and liabilities against the U.S. dollar. The change in fair value of these balance sheet hedge contracts is recorded into earnings as a component of other income (expense), net and offsets the change in fair value of the foreign currency denominated monetary assets and liabilities also recorded in other income (expense), net, assuming the hedge contract fully covers the intercompany and trade receivable balances.

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The notional amount and unrealized loss of our outstanding foreign currency forward contracts that are designated as balance sheet hedges, as of September 23, 2012 are shown in the table below. This table also shows the change in fair value of these balance sheet hedges, assuming a hypothetical foreign currency exchange rate movement of plus-or-minus 10 percent and plus-or-minus 15 percent. These changes in fair values would be offset in other income (expense), net, by corresponding change in fair values of the foreign currency denominated monetary assets and liabilities, assuming the hedge contract fully covers the intercompany and trade receivable balances.

		Notional Amount	Unrealized FX Gain / (Loss) September 23, 2012	Valuation of Fx Contracts Given an X% Increase (+)/Decrease(-) in Each Fx Rate	
				+ / - (10%)	+ / - (15%)
		(in \$ Millions)			
Balance Sheet Hedge					
Sell	Japanese Yen	\$ 29.8	\$ 0.2	\$ 3.0	\$ 4.4
Buy	Swiss Francs	\$ 23.5	\$ 0.0	\$ 2.3	\$ 3.5
Buy	Taiwanese Dollars	\$ 94.9	(\$ 1.2)	\$ 9.3	\$ 14.1
Buy	Euro	\$ 1.8	\$ 0.0	\$ 0.2	\$ 0.3
Buy	Great British Pounds	\$ 4.6	\$ 0.0	\$ 0.5	\$ 0.7
			(\$ 1.0)	\$ 15.3	\$ 23.0

We believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in our business activities. Anticipated cash flows from operations based on our current business outlook, combined with our current levels of cash, cash equivalents, and short-term investments at September 23, 2012 are expected to be sufficient to support our anticipated levels of operations, investments, debt service requirements, and capital expenditures, through at least the next 12 months. However, uncertainty in the global economy and the semiconductor industry, as well as disruptions in credit markets have in the past, and could in the future, impact customer demand for our products, as well as our ability to manage normal commercial relationships with our customers, suppliers, and creditors.

ITEM 4. Controls and Procedures***Disclosure Controls and Procedures***

As required by Exchange Act Rule 13a-15(b), as of September 23, 2012, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer, 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.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company is either a defendant or plaintiff in various actions that have arisen from time to time in the normal course of business, including intellectual property claims. The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, the Company believes that the amount of any such additional loss would be immaterial to the Company's business, financial condition, and results of operations.

ITEM 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, nor should be attached, to the order in which the risk factors appear.

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

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

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

Especially during transitional periods, resource allocation decisions can have a significant impact on our future performance, particularly if we have not accurately anticipated industry changes. Our success will depend, to a significant extent, on the ability of our executive officers and other members of our senior management to identify and respond to these challenges effectively.

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

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

a decline in demand for our products or services;

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an increase in reserves on accounts receivable due to our customers' inability to pay us;

an increase in reserves on inventory balances due to excess or obsolete inventory as a result of our inability to sell such inventory;

valuation allowances on deferred tax assets;

restructuring charges;

asset impairments including the potential impairment of goodwill and other intangible assets;

a decline in the value of our investments;

exposure to claims from our suppliers for payment on inventory that is ordered in anticipation of customer purchases that do not come to fruition;

a decline in the value of certain facilities we lease to less than our residual value guarantee with the lessor; and

challenges maintaining reliable and uninterrupted sources of supply.

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

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

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

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

integrating and optimizing the utilization of the properties, equipment, suppliers, distribution channels, manufacturing, service, marketing, promotion and sales activities and information technologies of the combined company;

consolidating corporate and administrative infrastructures of the combined company;

coordinating geographically dispersed organizations of the combined company;

retaining and growing business at existing customers and attracting new customers to the combined company;

managing our contractual and business relationships with common suppliers and customers to reduce inconsistent or inefficient effects;

retaining key employees and utilizing their technical knowledge and business expertise;

communicating the inherently complex factors that a business combination will have on our financial position and results of operations; and

conforming standards, controls, procedures, policies, business cultures and compensation structures throughout the combined company.

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

Our Quarterly Revenues and Operating Results Are Unpredictable

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

economic conditions in the electronics and semiconductor industries in general and specifically the semiconductor equipment industry;

the size and timing of orders from customers;

procurement shortages;

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

manufacturing difficulties;

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

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

changes in average selling prices, customer mix, and product mix;

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

our competitors' introduction of new products;

legal or technical challenges to our products and technology;

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

legal, tax, accounting, or regulatory changes (including but not limited to change in import/export regulations) or changes in the interpretation or enforcement of existing requirements;

changes in our estimated effective tax rate;

foreign currency exchange rate fluctuations; and

the dilutive impact of our convertible notes and related warrants on our earnings per share.

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

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

impacting our ability to satisfy our obligations;

increasing the portion of our cash flows that may have to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes; and

impairing our ability to obtain additional financing in the future.

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

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

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

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

We Have a Limited Number of Key Customers

Sales to a limited number of large customers constitute a significant portion of our overall revenue, shipments and profitability. As a result, the actions of even one customer may subject us to variability in those areas that are difficult to predict. In addition, large customers may be able to negotiate requirements that result in increased costs and/or lower margins for us. Similarly, significant portions of our credit risk may, at any given time, be concentrated among a limited number of customers, so that the failure of even one of these key customers to pay its obligations to us could significantly impact our financial results.

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

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

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

Rapid technological changes in semiconductor manufacturing processes subject us to increased pressure to develop technological advances that enable those processes. We believe that our future success depends in part upon our ability to develop and offer new products with improved capabilities and to continue to enhance our existing products. If new products have reliability, quality, or design problems, our performance may be impacted by reduced orders, higher manufacturing costs, delays in acceptance of and payment for new products, and additional service and warranty expenses. We may be unable to develop and manufacture new products successfully, or new products that we introduce may fail in the marketplace. The expected industry transition to a 450mm platform represents an emerging challenge for our business. Our failure to commercialize new products in a timely manner could result in loss of market share, unanticipated costs, and inventory obsolescence, which would adversely affect our financial results.

In order to develop new products and processes, we expect to continue to make significant investments in R&D and to pursue joint development relationships with customers, suppliers or other members of the industry. We must manage product transitions and joint development relationships successfully, as the introduction of new products could adversely affect our sales of existing products. Future technologies, processes or product developments may render our current product offerings obsolete, leaving us with non-competitive products, or obsolete inventory, or both. Moreover, customers may adopt new technologies or processes to address the complex challenges associated with next generation devices. This shift may result in a reduction in the size of Lam's addressable markets. For example, the adoption of extreme ultraviolet lithography may adversely impact Lam's served available market.

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

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

a decline in demand for even a limited number of our products;

a failure to achieve continued market acceptance of our key products;

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

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

increased pressure from competitors that offer broader product lines;

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

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

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

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

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

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

We Depend On a Limited Number of Key Suppliers

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

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Our Outsource Providers May Fail to Perform as We Expect

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

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

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

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

We Face a Challenging and Complex Competitive Environment

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

We believe that to remain competitive we must devote significant financial resources to offer a broad range of products, to maintain customer service and support centers worldwide, and to invest in product and process R&D. Certain of our competitors, especially those that are created and financially backed by foreign governments, have substantially greater financial resources and more extensive engineering, manufacturing, marketing, and customer service and support resources than we do and therefore have the potential to increasingly dominate the semiconductor equipment industry. These competitors may deeply discount or give away products similar to those that we sell, challenging or even exceeding our ability to make similar accommodations and threatening our ability to sell those products. We also face competition from our own customers, who in some instances have established affiliated entities that manufacture equipment similar to ours. For these reasons, we may fail to continue to compete successfully worldwide.

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

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

Non-U.S. sales accounted for approximately 82% of total revenue during the three months ended September 23, 2012, 83% of total revenue in fiscal year 2012, 88% of total revenue in fiscal year 2011, and 91% of total revenue in fiscal year 2010. We expect that international sales will continue to account for a substantial portion of our total revenue in future years.

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

trade balance issues;

global economic and political conditions, including the ongoing macroeconomic challenges associated with sovereign debt levels in certain Euro-zone countries and the financial contagion to global markets;

changes in currency controls;

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

our ability to respond to customer and foreign government demands for locally sourced systems, spare parts and services and develop the necessary relationships with local suppliers;

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

fluctuations in interest and foreign currency exchange rates;

the need for technical support resources in different locations; and

our ability to secure and retain qualified people in all necessary locations for the successful operation of our business.

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

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

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

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

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

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

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

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

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

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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.

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

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

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

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

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

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

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

general market, semiconductor, or semiconductor equipment industry conditions;

economic or political events and trends occurring globally or in any of our key sales regions;

variations in our quarterly operating results and financial condition, including our liquidity;

variations in our revenues, earnings or other business and financial metrics from forecasts by us or securities analysts, or from those experienced by other companies in our industry;

announcements of restructurings, reductions in force, departure of key employees, and/or consolidations of operations;

government regulations;

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

technological innovations and the introduction of new products by us or our competitors;

commercial success or failure of our new and existing products;

disruptions of relationships with key customers or suppliers; or

dilutive impacts of our Notes and related warrants.

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

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

Third parties may assert infringement, unfair competition, product liability, breach of contract, or other claims against us. From time to time, other parties send us notices alleging that our products infringe their patent or other intellectual property rights. In addition, law enforcement authorities may seek criminal charges relating to intellectual property or other issues. We also face risks of claims arising from commercial and

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other relationships. In addition, our Bylaws and indemnity obligations provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from their service to Lam Research. From time to time, in the normal course of business, we indemnify third parties with whom we enter into contractual relationships, including customers and suppliers, with respect to certain matters. We have agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third party claims that our products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. In such cases, it is our policy either to defend the claims or to negotiate licenses or other settlements on commercially reasonable terms. However, we may be unable in the future to negotiate necessary licenses or reach agreement on other settlements on commercially reasonable terms, or at all, and any litigation resulting from these claims by other parties may materially adversely affect our business and financial results, and we may be subject to substantial damage awards and penalties. Moreover, although we have insurance to protect us from certain claims and cover certain losses to our property, such insurance may not cover us for the full amount of any losses, or at all, and may be subject to substantial exclusions and deductibles.

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

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

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds
Repurchases of Company Shares

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

As part of our share repurchase program, we may from time-to-time enter into structured share repurchase arrangements with financial institutions using general corporate funds. Such arrangements entered into or settled during the three months ended September 23, 2012 included the following.

Collared Accelerated Share Repurchases

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

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

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of 10.8 and 6.6 million shares, respectively.

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

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

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

Period	Total Number of Shares Repurchased (1)	Average Price Paid Per Share* (in thousands, except per share data)	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Amount Available Under Repurchase Program
Amount available at June 24, 2012				\$ 911,933
June 25, 2012 July 24, 2012	5,711	\$ 35.35	5,604	\$ 761,484
July 25, 2012 August 24, 2012	3,959	\$ 34.79	3,949	\$ 649,644
August 25, 2012 September 23, 2012	2,428	\$ 33.81	2,417	\$ 567,932
Total	12,098	\$ 34.79	11,970	

* Average price paid per share excludes accelerated share repurchases for which cost was incurred in fiscal year 2012, but shares were received in fiscal year 2013. See *Collared Accelerated Share Repurchases* section above for details regarding average price associated with these transactions.

- (1) In addition to shares repurchased under Board authorized repurchase program (as described above), included in this column are 128,000 shares acquired at a total cost of \$4.4 million which the Company withheld through net share settlements to cover minimum tax withholding obligations upon the vesting of restricted stock unit awards granted under the Company's equity compensation plans. The shares retained by the Company through these net share settlements are not a part of the Board-authorized repurchase program but instead are authorized under the Company's equity compensation plans.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

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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: November 1, 2012

LAM RESEARCH CORPORATION

(Registrant)

/s/ ERNEST E. MADDOCK

Ernest E. Maddock

Senior Vice President, Chief Financial Officer

(Principal Financial Officer and Principal 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)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document