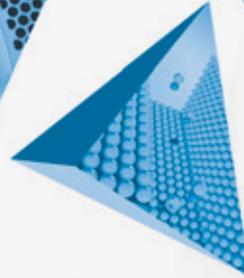


Innovative **Technology**  
Trusted **Productivity**  
Fast **Solutions**







**LAM RESEARCH** delivered another record year for financial performance in fiscal 2015, surpassing the \$5 billion level for both shipments and revenue and generating over \$1 billion in non-GAAP operating income\*. Our technology and productivity leadership combined with a collaborative approach to solving the industry's toughest challenges has enabled Lam's outperformance. Looking forward, we believe we are positioned for continued growth within the semiconductor capital equipment space due to the industry-driving technology inflections that our deposition, etch, clean, and service products directly address. Our focus on customer trust, collaboration, and execution continues to increase our opportunities and enhance the value we deliver to our customers, employees, and stockholders.

\*A reconciliation of U.S. GAAP results to non-GAAP results can be found at [www.lamresearch.com](http://www.lamresearch.com).

## LETTER TO OUR STOCKHOLDERS

Lam Research continued its theme of outperformance in fiscal year 2015, growing at greater than twice the rate of the wafer fabrication equipment industry. We achieved several company milestones, exceeding the \$5 billion level in both revenue and shipments for the first time in our history and generating a record \$1 billion in non-GAAP operating income\*. Lam's outperformance would not be possible without the support of our customers, who trust us to execute on commitments critical to their success. Our ability to grow profitably is enabling us to invest in the significant growth opportunities we see in the marketplace while delivering value to our stockholders, with \$630 million returned last year through buybacks and dividends. In recognition of our strong financial performance, Lam Research was added to the

NASDAQ-100 Index®.

## Lam's outperformance would not be possible without the support of our customers, who trust us to execute on commitments critical to their success.

Our positive momentum comes at a time when our core product strengths and capabilities are in close alignment with the needs of the global semiconductor industry. Increased demand for semiconductor products is being driven

by the move to mobile and cloud-based computing as well as the emergence of wearable and connected devices. The industry is innovating at a high rate as manufacturers seek to address the advanced technology needs and the economic realities of delivering more diverse and cost-effective semiconductors.

The DRAM and NAND flash memory segments are experiencing significant, yet disciplined, growth. In NAND, the accelerating transition to 3D device architectures provides a significant opportunity for Lam, given the increased number of complex deposition and etch steps required for vertical memory cell formation. The foundry and logic segments continue to innovate at the leading edge, driven by the demands of the mobile computing world. Smaller form factors are being achieved by shrinking device features through the use of multi-patterning techniques, which utilize repeated deposition and etch steps. We expect this trend of increasing deposition and etch intensity to continue through the adoption of next-generation lithography equipment.

The migration to 3D device architectures, multi-patterning, and advanced packaging techniques comprise a set of industry-driving technology inflections that significantly utilize deposition, etch, and clean products. Lam's strong position in these inflections, represented by increased market share, combined with increasing capital intensity is driving a sizeable market expansion opportunity for the company. We estimate that in the next three years, our served available market will increase from about 29% of wafer fabrication equipment spending to approximately 32%, representing an unmatched growth outperformance opportunity.

\*A reconciliation of U.S. GAAP results to non-GAAP results can be found at [www.lamresearch.com](http://www.lamresearch.com).

Executing on this opportunity requires that we extend our technology and productivity leadership. With this objective in mind, we prioritize sustained investment in R&D to support and enable the current and future set of industry-driving inflections. Extending this leadership will ensure that we continue to strengthen our position at the leading edge of our industry by delivering superior value to our customers as they innovate to meet the needs of their end markets.

Equally important to our future growth is our focus on collaborative engagements, including those with customers, suppliers, industry alliances, and peers. We believe this broad eco-system of collaboration differentiates Lam among semiconductor capital equipment companies and enables us to accelerate delivery of the solutions our customers require to solve their toughest technical and economic challenges.

Customer trust is a critical element of success in an industry where five customers account for approximately 70% of the capital equipment investments made. Our focus on executing to the needs of our customers is illustrated by our differentiated products targeted at expanding process windows and reducing manufacturing costs. For example, our Kiyo® conductor etch system with proprietary Hydra® technology minimizes variation across the wafer by correcting for incoming pattern non-uniformities, a capability critical to today's multi-step multi-patterning schemes and to our customers' ability to produce devices at the leading edge.

As we increase our size, scope, and strategic relevance, our responsibility to support our customers increases, as does our opportunity. In that context, as we grow our installed base of products, we are strengthening our service organization, which contributes roughly a quarter of the company's revenues. We are growing our service business at a faster rate than the installed base as we invest in capabilities and products that expand the served available market of this business unit.

While fiscal 2015 was a milestone year for Lam in many respects, the opportunities ahead are significant. Lam is executing at a high level today while taking the steps necessary to build an exciting future. We believe that our strong product and service portfolio, aligned with multi-generation industry roadmaps, and our unique values and culture position us for continued outperformance.

Lam's success would not be possible without the rewarding partnerships we have built with our customers and suppliers, the achievement and commitment of our employees worldwide, and the valued support of our stockholders. We would like to take this opportunity to thank all of you, and we look forward to building on our achievements in fiscal year 2016 and beyond.

Sincerely,



Martin B. Anstice  
President and Chief Executive Officer



Stephen G. Newberry  
Chairman of the Board

SEPTEMBER 3, 2015

#### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Ernst & Young LLP  
San Jose, California

#### **LEGAL COUNSEL**

Jones Day  
San Francisco, California

#### **TRANSFER AGENT AND REGISTRAR**

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

Computershare Investor Services  
P.O. Box 30170  
College Station, TX 77842-3170  
1.877.265.2630

Private Couriers/Registered Mail:  
Computershare Investor Services  
211 Quality Circle, Suite 210  
College Station, Texas 77845

TDD for Hearing Impaired:  
1.800.952.9245

Foreign Shareowners:  
1.781.575.2879

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

#### **STOCK LISTING**

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

#### **INVESTOR RELATIONS**

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

Investor Relations  
Lam Research Corporation  
4650 Cushing Parkway  
Fremont, California 94538  
1.510.572.1615  
[investor.relations@lamresearch.com](mailto:investor.relations@lamresearch.com)

#### **ANNUAL MEETING**

The Annual Meeting of Stockholders will be held at 9:30 a.m. Pacific Time on Wednesday, November 4, 2015, at the Company's corporate headquarters.

#### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

With the exception of historical facts, the statements contained in this Letter to Our Stockholders ("Letter") and this Annual Report ("Report") are forward-looking statements. Forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. We have identified some, but not all, of the forward-looking statements in the Letter and Report by use of future-oriented words and phrases such as "emerge," "into the future," "estimate," "expect," "to continue," "opportunities," "we see," "targeting," "invest," "innovating," "pursuing," and "projected". However, our identification of certain statements as forward-looking does not mean that other statements not specifically identified are not forward-looking. Forward-looking statements include, but are not limited to, statements that relate to: the timing and extent of our commitment to returning capital to our stockholders (whether in the form of share repurchases and/or quarterly dividends); investment in our future growth; our expectations regarding Lam's performance compared to wafer fabrication equipment spending in terms of future opportunities for our business; the prospects for industry-driving technology inflections; the opportunities (e.g., in terms of amount and timing) for growth of our market segments and the served available market; the drivers for semiconductor product demand, Lam's technology opportunities and extent of and prioritization of our investment therein; Lam's innovation; our expectations and opportunities for market expansion and growth, and our projected growth from our installed base business; the key differentiators in and drivers of our future performance opportunities; and our business plans and strategies. These statements are based on current expectations and are subject to risks, uncertainties, and changes in condition, significance, value and effect, including without limitation macroeconomic conditions, the actions of our competitors, political disruptions such as wars and terrorist events, government actions, technology changes and those discussed under the heading "Risk Factors" within Item 1A of our fiscal 2015 Form 10-K; under the heading "Cautionary Statement Regarding Forward-Looking Statements" at the beginning of Part I of the Form 10-K; and other documents we file from time to time with the Securities and Exchange Commission, such as our quarterly reports on Form 10-Q and current reports on Form 8-K. These risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those expressed in this Letter and in ways that are not readily foreseeable. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Letter and Report and are based on information currently and reasonably known to us. We do not undertake any obligation to update any forward-looking statements, or to release the results of any revisions to these forward looking statements, to reflect the impact of anticipated or unanticipated events or circumstances that occur after the date of this Letter and Report.

#### **TRADEMARK INFORMATION**

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



September 21, 2015

Dear Lam Research Stockholders,

We cordially invite you to attend, in person or by proxy, the Lam Research Corporation 2015 Annual Meeting of Stockholders. The annual meeting will be held on Wednesday, November 4, 2015, at 9:30 a.m. Pacific Standard Time in the Building CA1 Auditorium at the principal executive offices of Lam Research Corporation, which is located at 4650 Cushing Parkway, Fremont, California 94538.

At this year's annual meeting, stockholders will be asked to elect the nine nominees named in the attached proxy statement as directors to serve for the ensuing year, and until their respective successors are elected and qualified; to cast an advisory vote to approve the compensation of our named executive officers, or "Say on Pay"; to approve the Lam 2004 Executive Incentive Plan, as amended and restated; to approve the adoption of the Lam 2015 Stock Incentive Plan; and to ratify the appointment of the independent registered public accounting firm for fiscal year 2016. The Board of Directors recommends that you vote in favor of all five proposals. Management will not provide a business update during this meeting; please refer to our latest quarterly earnings report for our current outlook.

Please refer to the proxy statement for detailed information about the annual meeting and each of the proposals, as well as voting instructions. **Your vote is important, and we strongly urge you to cast your vote by the internet, phone or mail even if you plan to attend the meeting in person.**

Sincerely yours,

Lam Research Corporation

A handwritten signature in black ink that reads "Stephen G. Newberry". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Stephen G. Newberry  
*Chairman of the Board*



# Notice of 2015 Annual Meeting of Stockholders



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

**Date and Time**      Wednesday, November 4, 2015  
9:30 a.m. Pacific Standard Time

**Place**                Lam Research Corporation  
Building CA1 Auditorium  
4650 Cushing Parkway  
Fremont, California 94538

## Items of Business

1. Election of nine directors to serve for the ensuing year, and until their respective successors are elected and qualified
2. Advisory vote to approve the compensation of our named executive officers, or "Say on Pay"
3. Approval of the Lam 2004 Executive Incentive Plan, as amended and restated
4. Approval of the adoption of the Lam 2015 Stock Incentive Plan
5. Ratification of the appointment of independent registered public accounting firm for fiscal year 2016
6. Transact such other business that may properly come before the annual meeting (including any adjournment or postponement thereof)

## Record Date

Only stockholders of record at the close of business on September 8, 2015, the "Record Date," are entitled to notice of and to vote at the annual meeting.

## Voting

Please vote as soon as possible, even if you plan to attend the annual meeting in person. You have three options for submitting your vote before the annual meeting: by the internet, phone or mail. The proxy statement and the accompanying proxy card provide detailed voting instructions.

## Internet Availability of Proxy Materials

Our Notice of 2015 Annual Meeting of Stockholders, Proxy Statement and Annual Report to Stockholders are available on the Lam Research website at <http://investor.lamresearch.com> and at [www.proxyvote.com](http://www.proxyvote.com).

By Order of the Board of Directors

A handwritten signature in black ink, appearing to read "Sarah A. O'Dowd".

Sarah A. O'Dowd  
Secretary

**This proxy statement is first being made available and/or mailed to our stockholders on or about September 21, 2015.**

# LAM RESEARCH CORPORATION

## Proxy Statement for 2015 Annual Meeting of Stockholders

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# Proxy Statement Summary

To assist you in reviewing the proposals to be acted upon at the annual meeting we call your attention to the following information about the proposals and voting recommendations, the Company's director nominees and highlights of the Company's corporate governance, executive compensation and 2015 Stock Incentive Plan. The following description is only a summary. For more complete information about these topics, please review the complete proxy statement.

We use the terms "Lam Research," "Lam," the "Company," "we," "our," and "us" in this proxy statement to refer to Lam Research Corporation, a Delaware corporation.

## Figure 1. Proposals and Voting Recommendations

Voting Matters	Board Vote Recommendation
Proposal 1 – Election of Nine Nominees Named Herein as Directors	FOR each nominee
Proposal 2 – Advisory Vote to Approve the Compensation of Our Named Executive Officers, or "Say on Pay"	FOR
Proposal 3 – Approval of the Lam 2004 Executive Incentive Plan, as Amended and Restated	FOR
Proposal 4 – Approval of the Adoption of the Lam 2015 Stock Incentive Plan	FOR
Proposal 5 – Ratification of the Appointment of the Independent Registered Public Accounting Firm for Fiscal Year 2016	FOR

## Figure 2. Summary Information Regarding Director Nominees

You are being asked to vote on the election of these nine directors. The following table provides summary information about each director nominee as of September 2015, and their biographical information is contained in the "Voting Proposals – Proposal No. 1: Election of Directors – 2015 Nominees for Director" section below.

Name	Director			Committee Membership			Other Current Public Boards
	Age	Since	Independent <sup>(1)</sup>	AC	CC	NGC	
Martin B. Anstice	48	2012	No				
Eric K. Brandt	53	2010	Yes	C/FE			Dentsply International
Michael R. Cannon	62	2011	Yes	M		M	Adobe Systems, Seagate Technology, Dialog Semiconductor
Youssef A. El-Mansy	70	2012	Yes		M		
Christine A. Heckart	49	2011	Yes	M			
Catherine P. Lego	58	2006	Yes		C	M	SanDisk, Fairchild Semiconductor International
Stephen G. Newberry	61	2005	No				Splunk
Krishna C. Saraswat	68	2012	Yes				
Abhijit Y. Talwalkar	51	2011	Yes (Lead Independent Director)		M	C	

<sup>(1)</sup> Independence determined based on NASDAQ rules.

**AC** – Audit committee

**CC** – Compensation committee

**NGC** – Nominating and governance committee

**C** – Chairperson

**M** – Member

**FE** – Audit committee financial expert (as determined based on SEC rules)

Continues on next page ►

### Figure 3. Corporate Governance Highlights

Board and Other Governance Information <sup>(1)</sup>	As of September 2015
Size of Board as Nominated	9
Average Age of Director Nominees	57.8
Average Tenure of Director Nominees	5.4
Number of Independent Nominated Directors	7
Number of Nominated Directors Who Attended $\geq$ 75% of Meetings	8 <sup>(2)</sup>
Number of Nominated Directors on More Than Four Public Company Boards	0
Directors Subject to Stock Ownership Guidelines	Yes
Annual Election of Directors	Yes
Voting Standard	Majority
Plurality Voting Carveout for Contested Elections	Yes
Separate Chairman and CEO	Yes
Lead Independent Director	Yes
Independent Directors Meet Without Management Present	Yes
Board (Including Individual Director) and Committee Self-Evaluations	Yes
Annual Independent Director Evaluation of CEO	Yes
Risk Oversight by Full Board and Committees	Yes
Commitment to Board Refreshment and Diversity	Yes
Robust Director Nomination Process	Yes
Board Orientation/Education Program	Yes
Code of Ethics Applicable to Directors	Yes
Stockholder Ability to Act by Written Consent	Yes
Poison Pill	No
Publication of Corporate Social Responsibility Report on Our Website	Yes

<sup>(1)</sup> The nine directors to be elected is fewer than the eleven members as of the proxy statement filing date, and the board has reduced the size of the board to nine, effective immediately prior to the time of this year's annual meeting of stockholders.

<sup>(2)</sup> For additional information regarding meeting attendance see "Governance Matters – Corporate Governance – Meeting Attendance" below.

## Figure 4. Executive Compensation Highlights

### What We Do

**Pay for Performance** (Pages 15-18, 21, 24-25) – Our executive compensation program is designed to pay for performance with 100% of the short-term incentive program tied to company financial, strategic and operational performance metrics, 50% of the long-term incentive program tied to total shareholder return, or “TSR,” performance, and 50% of the long-term incentive program awarded in stock options and restricted stock units, or “RSUs.”

**Three-Year Performance Period for Our 2015 Long-Term Incentive Program** (Pages 24-26) – Our current long-term incentive program is designed to pay for performance over a period of three years.

**Absolute and Relative Performance Metrics** (Pages 21-23, 24-26) – Our annual and long-term incentive programs for executive officers include the use of absolute and relative performance factors.

**Balance of Annual and Long-Term Incentives** – Our incentive programs provide a balance of annual and longer-term incentives.

**Different Performance Metrics for Annual and Long-Term Incentive Programs** (Pages 21-23, 24-26) – Our annual and long-term incentive programs use different performance metrics.

**Capped Amounts** (Pages 21-22, 25-26) – Amounts that can be earned under the annual and long-term incentive programs are capped.

**Compensation Recovery/Clawback Policy** (Page 18) – We have a policy in which we can recover the excess amount of cash incentive-based compensation granted and paid to our officers who are covered by Section 16 of the Exchange Act.

**Prohibit Option Repricing** – Our stock incentive plans prohibit option repricing without stockholder approval (excluding adjustments due to specified corporate transactions and changes in capitalization).

**Hedging and Pledging Policy** (Page 8) – We have a policy applicable to our Named Executive Officers, or “NEOs,” and directors that prohibits pledging and hedging.

**Stock Ownership Guidelines** (Page 18) – We have stock ownership guidelines for each of our executive officers and certain other senior executives; each of our NEOs has met his or her individual ownership level under the current program or has a period of time remaining under the guidelines to do so.

**Independent Compensation Advisor** (Page 19) – The compensation committee benefits from its utilization of an independent compensation advisor retained directly by the committee that provides no other services to the Company.

**Stockholder Engagement** – We engage with stockholders and stockholder advisory firms to obtain feedback concerning our compensation program.

### What We Don't Do

**Tax “Gross-Ups” for Perquisites, for Other Benefits or upon a Change in Control** (Pages 29-32, 36-38) – Our executive officers do not receive tax “gross-ups” for perquisites, for other benefits or upon a change in control.<sup>(1)</sup>

**Single-Trigger Change in Control Provisions** (Pages 28, 36-38) – None of our executive officers have single-trigger change in control agreements.

<sup>(1)</sup> Our executive officers may receive tax gross-ups in connection with relocation benefits that are widely available to all of our employees.

## Figure 5. 2015 Stock Incentive Plan Highlights

### What The Plan Includes

**Share Reserve** (Page 58) – 18 million shares shall be available for issuance under the 2015 Stock Incentive Plan, or the “2015 Plan.” In addition, the shares that remain available for grants under the 2007 Stock Incentive Plan, or the “2007 Plan,” as of the date of the 2015 Annual Meeting of Stockholders and any shares that would otherwise return to the 2007 Plan as a result of the forfeiture, termination or expiration of awards previously granted under the 2007 Plan shall also be available for issuance under the 2015 Plan in addition to the 18 million shares.

**Award Type Flexibility** (Page 57) – The 2015 Plan provides for incentive stock options, non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights, or “SARs,” and other awards (including, but not limited to, purchase rights for shares, bonus shares, deferred shares, performance shares and phantom shares).

**Fungible Share Ratio** (Page 58) – Awards other than stock options and SARs count against the share reserve at a 2:1 ratio (i.e., will count as two shares against the share reserve for every one share subject to such award).

**Grant Limits** (Page 58) – Grantees may not be granted more than 1,000,000 stock options and SARs during a fiscal year (2,000,000 for new hires). Restricted stock, restricted stock units and other awards intended to be performance-based compensation are limited at 600,000 shares during a fiscal year. Non-employee director awards are limited to 80,000 shares regardless of award type.

**Minimum Vesting Periods** (Page 59) – Awards may not vest sooner than the one year anniversary of the date of grant (except with respect to 5% of the maximum number of shares that may be issued under the 2015 Plan). Awards may provide for earlier vesting in certain circumstances (e.g., death, disability and in certain corporate transactions).

**Recoupment/Clawback** (Page 60) – Awards under the 2015 Plan are subject to any applicable recoupment provision that we may adopt with respect to equity awards made after such adoption.

**Plan Term** (Page 59) – The 2015 Plan terminates 10 years from its effective date, though awards granted before termination will survive in accordance with their terms.

### Shares Available for Awards Provisions (Page 59) –

- Shares covered by an award which is forfeited, canceled or which expires before the shares are issued shall be available for future issuance under the 2015 Plan.
- Shares that have been issued (e.g., restricted stock) shall not be returned to the 2015 Plan except where unvested shares are forfeited or repurchased by the Company at the lower of their original purchase price or their fair market value.
- Shares tendered or withheld in payment of an option or SAR exercise price or withheld to pay any option or SAR tax withholding obligation shall not be returned to the 2015 Plan.
- Shares tendered or withheld in payment of any tax withholding obligation for an award other than an option or SAR shall be returned to the 2015 Plan and available for future issuance.

### What The Plan Does Not Include

**Repricing Without Stockholder Approval** (Page 59) – Stockholder approval must be obtained prior to the reduction of the exercise price of any option or SAR or the cancellation of an option or SAR when its exercise price exceeds the fair market value of the shares in exchange for cash, another award, or an option or SAR with a lower exercise price (excluding adjustments due to specified corporate transactions and changes in capitalization).

# Stock Ownership

## Security Ownership of Certain Beneficial Owners and Management

The table below sets forth the beneficial ownership of shares of Lam common stock by: (i) each person or entity who we believe based on our review of filings made with the United States Securities and Exchange Commission, or the “SEC,” beneficially owned as of September 8, 2015, more than 5% of Lam’s common stock on the date set forth below; (ii) each current director of the Company; (iii) each NEO identified below in the “*Compensation Matters – Executive Compensation and Other Information – Compensation Discussion and Analysis*” section; and (iv) all current directors and current

executive officers as a group. With the exception of 5% owners, and unless otherwise noted, the information below reflects holdings as of September 8, 2015, which is the Record Date for the 2015 annual meeting and the most recent practicable date for determining ownership. For 5% owners, holdings are as of the dates of their most recent ownership reports filed with the SEC, which are the most practicable dates for determining their holdings. The percentage of the class owned is calculated using 158,498,813 as the number of shares of Lam common stock outstanding on September 8, 2015.

**Figure 6. Beneficial Ownership Table**

Name of Person or Identity of Group	Shares Beneficially Owned (#) <sup>(1)</sup>	Percentage of Class
<b>5% Stockholders</b>		
JPMorgan Chase & Co. 270 Park Avenue New York, NY 10017	20,041,020 <sup>(2)</sup>	12.6%
Ameriprise Financial, Inc. 145 Ameriprise Financial Center Minneapolis, MN 55474		
Columbia Management Investment Advisers, LLC 225 Franklin St. Boston, MA 02110	14,784,854 <sup>(3)</sup>	9.3%
The Vanguard Group, Inc. 100 Vanguard Boulevard Malvern, PA 19355	12,200,295 <sup>(4)</sup>	7.7%
BlackRock Inc. 55 East 52nd Street New York, NY 10022	9,099,499 <sup>(5)</sup>	5.7%
<b>Directors</b>		
Martin B. Anstice (also a Named Executive Officer)	53,261	*
Eric K. Brandt	24,230	*
Michael R. Cannon	20,530	*
Youssef A. El-Mansy	22,133	*
Christine A. Heckart	15,030	*
Grant M. Inman	90,038	*
Catherine P. Lego	46,038	*
Stephen G. Newberry	32,640	*
Krishna C. Saraswat	23,696	*
William R. Spivey	62,416	*
Abhijit Y. Talwalkar	21,130	*
<b>Named Executive Officers (“NEOs”)</b>		
Timothy M. Archer	139,556 <sup>(6)</sup>	*
Douglas R. Bettinger	10,811	*
Richard A. Gottscho	67,191	*
Sarah A. O’Dowd	49,797	*
All current directors and executive officers as a group (15 people)	678,497 <sup>(6)</sup>	*

*Continues on next page* ►

\* Less than 1%.

(1) Includes shares subject to outstanding stock options that are now exercisable or will become exercisable within 60 days after September 8, 2015, as well as restricted stock units, or "RSUs," that will vest within that time period, as follows:

	Shares
Martin B. Anstice	—
Eric K. Brandt	2,400
Michael R. Cannon	2,400
Youssef A. El-Mansy	2,400
Christine A. Heckart	2,400
Grant M. Inman	2,400
Catherine P. Lego	2,400
Stephen G. Newberry	2,400
Krishna C. Saraswat	2,400
William R. Spivey	2,400
Abhijit Y. Talwalkar	2,400
Timothy M. Archer	—
Douglas R. Bettinger	—
Richard A. Gottscho	—
Sarah A. O'Dowd	—
All current directors and executive officers as a group (15 people)	24,000

As discussed in "Director Compensation" below, the non-employee directors receive an annual equity grant as part of their compensation. These grants generally vest on October 31, 2015, subject to continued service on the board as of that date, with immediate delivery of the shares upon vesting. For 2015, Drs. El-Mansy, Saraswat and Spivey; Messrs. Brandt, Cannon, Inman, Newberry and Talwalkar; and Ms. Heckart and Lego each received grants of 2,400 RSUs. These RSUs are included in the tables above.

(2) All information regarding JPMorgan Chase & Co., or "JPMorgan Chase," is based solely on information disclosed in amendment number six to Schedule 13G filed by JPMorgan Chase with the SEC on January 15, 2015 as a parent holding company on behalf of JPMorgan Chase and its wholly-owned subsidiaries: JPMorgan Chase Bank, National Association; J.P. Morgan Investment Management Inc.; JPMorgan Asset Management (UK) Ltd.; J.P. Morgan Trust Company of Delaware; and JPMorgan Asset Management (Canada) Inc. According to the Schedule 13G/A filing, of the 20,041,020 shares of Lam common stock reported as beneficially owned by JPMorgan Chase as of December 31, 2014, JPMorgan Chase had sole voting power with respect to 17,836,175 shares, had shared voting power with respect to 257,237 shares, had sole dispositive power with respect to 19,726,354 shares and shared dispositive power with respect to 313,701 shares of Lam common stock reported as beneficially owned by JPMorgan Chase as of that date.

(3) All information regarding Ameriprise Financial, Inc., or "Ameriprise," and Columbia Management Investment Advisers, LLC, or "Columbia," is based solely on information disclosed in amendment number two to Schedule 13G filed by Ameriprise and Columbia with the SEC on February 17, 2015. According to the Schedule 13G filing, of the 14,784,854 shares of Lam common stock reported as beneficially owned by Ameriprise and Columbia as of December 31, 2014, Ameriprise and Columbia did not have sole voting power with respect to any shares, and had shared voting power with respect to 1,262,004 shares, did not have sole dispositive power with respect to any other shares and shared dispositive power with respect to 14,784,854 shares of Lam common stock reported as beneficially owned by Ameriprise and Columbia as of that date. According to the Schedule 13G filing, Ameriprise, as the parent company of Columbia, may be deemed to beneficially own the shares reported by Columbia in the Schedule 13G filing. Accordingly, the shares reported by Ameriprise in the Schedule 13G filing include those shares separately reported therein by Columbia.

(4) All information regarding The Vanguard Group, Inc., or "Vanguard," is based solely on information disclosed in amendment number two to Schedule 13G filed by Vanguard with the SEC on February 10, 2015. According to the Schedule 13G filing, of the 12,200,295 shares of Lam common stock reported as beneficially owned by Vanguard as of December 31, 2014, Vanguard had sole voting power with respect to 267,722 shares, did not have shared voting power with respect to any other shares, had sole dispositive power with respect to 11,938,873 shares and shared dispositive power with respect to 261,422 shares of Lam common stock reported as beneficially owned by Vanguard as of that date. The 12,200,295 shares of Lam common stock reported as beneficially owned by Vanguard include 217,422 shares beneficially owned by Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, as a result of it serving as investment manager of collective trust accounts, and 103,300 shares beneficially owned by Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of Vanguard, as a result of it serving as investment manager of Australian investment offerings.

(5) All information regarding BlackRock Inc., or "BlackRock," is based solely on information disclosed in amendment number seven to Schedule 13G filed by BlackRock with the SEC on February 2, 2015 on behalf of BlackRock and its subsidiaries: BlackRock (Luxembourg) S.A.; BlackRock (Netherlands) B.V.; BlackRock Advisors (UK) Limited; BlackRock Advisors, LLC; BlackRock Asset Management Canada Limited; BlackRock Asset Management Deutschland AG; BlackRock Asset Management Ireland Limited; BlackRock Asset Management North Asia Limited; BlackRock Financial Management, Inc.; BlackRock Fund Management Ireland Limited; BlackRock Fund Managers Ltd; BlackRock Institutional Trust Company, N.A.; BlackRock International Limited; BlackRock Investment Management (Australia) Limited; BlackRock Investment Management (UK) Ltd; BlackRock Investment Management, LLC; BlackRock Japan Co Ltd; and BlackRock Life Limited. According to the Schedule 13G filing, of the 9,099,499 shares of Lam common stock reported as beneficially owned by BlackRock as of December 31, 2014, BlackRock had sole voting power with respect to 7,649,071 shares, did not have shared voting power with respect to any other shares,

had sole dispositive power with respect to 9,099,499 shares and did not have shared dispositive power with respect to any other shares of Lam common stock reported as beneficially owned by BlackRock as of that date.

- <sup>(6)</sup> Includes 4,284 shares of common stock held indirectly in a 401(k) plan and 506 shares of common stock held by Mr. Archer's spouse in her 401(k) plan over which he may be deemed to have beneficial ownership.

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## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers, directors, and people who own more than 10% of a registered class of our equity securities to file an initial report of ownership (on a Form 3) and reports on subsequent changes in ownership (on Forms 4 or 5) with the SEC by specified due dates. Our executive officers, directors, and greater-than-10% stockholders are also required by SEC rules

to furnish us with copies of all Section 16(a) forms they file. We are required to disclose in this proxy statement any failure to file any of these reports on a timely basis. Based solely on our review of the copies of the forms that we received from the filers, and on written representations from certain reporting persons, we believe that all of these requirements were satisfied during fiscal year 2015.

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## Corporate Governance

Our board of directors and members of management are committed to responsible corporate governance to manage the Company for the long-term benefit of its stockholders. To that end, the board and management periodically review and update, as appropriate, the Company's corporate governance policies and practices. As part of that process, the board and management consider the requirements of federal and state law, including rules and regulations of the SEC; the listing standards for the NASDAQ Global Select Market, or "NASDAQ;" published guidelines and recommendations of proxy advisory firms; published guidelines of other selected public companies; and any feedback we receive from our stockholders. A list of key corporate governance practices is provided in the "Proxy Statement Summary" above.

### Corporate Governance Policies

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

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

**Corporate governance guidelines.** We adhere to written corporate governance guidelines, adopted by the board and reviewed annually by the nominating and governance committee and the board. Selected provisions of the guidelines are discussed below, including in the "Board Nomination Policies and Procedures," "Director Independence Policies" and "Other Governance Practices" sections below. The corporate governance guidelines are available on the investors' page of our web site at <http://investor.lamresearch.com/corporate-governance.cfm>.

**Corporate code of ethics.** We maintain a code of ethics that applies to all employees, officers, and members of the board. The code of ethics establishes standards reasonably necessary to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, and full, fair, accurate, timely, and understandable disclosure in the periodic

reports we file with the SEC and in other public communications. We will promptly disclose to the public any amendments to, or waivers from, any provision of the code of ethics to the extent required by applicable laws. We intend to make this public disclosure by posting the relevant material on our web site, to the extent permitted by applicable laws. A copy of the code of ethics is available on the investors' page of our web site at <http://investor.lamresearch.com/corporate-governance.cfm>.

**Global standards of business conduct policy.** We maintain written standards of appropriate conduct in a variety of business situations that apply to our worldwide workforce. Among other things, these global standards of business conduct address relationships with one another, relationships with Lam (including conflicts of interest, safeguarding of Company assets and protection of confidential information) and relationships with other companies and stakeholders (including anti-corruption).

**Insider trading policy.** Our insider trading policy restricts the trading of Company stock by our directors, officers, and employees, and includes provisions addressing insider blackout periods and prohibiting hedges and pledges of Company stock.

### Board Nomination Policies and Procedures

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

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

The board and the nominating and governance committee regard board refreshment as important, and strive to maintain an appropriate balance of tenure, turnover, diversity and skills on the board. The board believes that new perspectives and ideas are important to a forward-looking and strategic board as is the ability to benefit from the valuable experience and familiarity of longer-serving directors.

Prior to recommending that an incumbent non-employee director be nominated for reelection to the board, the committee reviews the experiences, skills and qualifications of the directors to assess the continuing relevance of the directors' experiences, skills and qualifications to those considered necessary or desirable for the board at that time. Board members may not serve on more than four boards of public companies (including service on the Company's board).

To be nominated, a new or incumbent candidate must provide an irrevocable conditional resignation that will be effective upon (i) the director's failure to receive the required majority vote at an annual meeting at which the nominee faces re-election and (ii) the board's acceptance of such resignation. In addition, no director, after having attained the age of 75 years, may be nominated for re-election or reappointment to the board.

**Nomination procedure.** The nominating and governance committee identifies, screens, evaluates and recommends qualified candidates for appointment or election to the board based on the board's needs and desires at that time as developed through their self-evaluation process. The committee considers recommendations from a variety of sources, including search firms, board members, executive officers and stockholders. Nominations for election by the stockholders are made by the independent members of the board.

Certain provisions of our bylaws apply to the nomination or recommendation of candidates by a stockholder. Information regarding the nomination procedure is provided in the "Voting and Meeting Information – Other Meeting Information – Stockholder-Initiated Proposals and Nominations for 2015 Annual Meeting" section below.

## Director Independence Policies

**Board independence requirements.** Our corporate governance guidelines require that at least a majority of the board members be independent. No director will qualify as "independent" unless the board affirmatively determines that the director qualifies as independent under the NASDAQ rules and has no relationship that would interfere with the exercise of independent judgment as a director. In addition, no non-employee director may serve as a consultant or service provider to the Company without the approval of a majority of the independent directors (and any such director's independence must be reassessed by the full board following such approval).

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

**Board committee independence.** All members of the board's audit, compensation, and nominating and governance committees must be non-employee or outside directors and independent in accordance with applicable NASDAQ criteria as well as, in the case of the compensation committee, applicable rules under section 162(m) of the Internal Revenue Code of 1986, as amended, or the "Code," and Rule 16b-3 of the Securities Exchange Act of 1934, as amended, or the "Exchange Act." See "Board Committees" below for additional information regarding these board committees.

**Lead independent director.** Our corporate governance guidelines authorize the board to designate a lead independent director from among the independent board members. The lead independent director is responsible for coordinating the activities of the independent directors; consulting with the chairman regarding matters such as schedules of and agendas for board meetings; the quality, quantity and timeliness of the flow of information from management; the retention of consultants who report directly to the board; and developing the agenda for and moderating executive sessions of the board's independent directors. Mr. Talwalkar was appointed the lead independent director, effective August 27, 2015, succeeding Mr. Inman, who is retiring effective as of November 2, 2015 and had served as the lead independent director from his reelection at the 2012 annual meeting through August 26, 2015.

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

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

**Board education program.** Our corporate governance guidelines provide that directors are expected to participate in educational activities sufficient to maintain their understanding of their duties as directors and to enhance their ability to fulfill their responsibilities. In addition to any external educations that the directors find useful, the Company and the board leadership are expected to facilitate such participation by arranging for appropriate educational content to be incorporated into regular meetings of the board and committees.

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## Leadership Structure of the Board

The current leadership structure of the board consists of a chairman and a lead independent director. The chairman, Mr. Newberry, served as chief executive officer of the Company from June 2005 to January 2012. The board believes that this is the appropriate board leadership structure at this time. Lam and its stockholders benefit from having Mr. Newberry as its chairman, as he brings to bear his experience as CEO as well as his other qualifications in carrying out his responsibilities as chairman, which include (i) preparing the agenda for the board meetings; (ii) upon invitation, attending meetings of any of the board committees on which he is not a member; (iii) if not also the CEO, conveying to the CEO, together with the chair of the compensation committee, the results of the CEO's performance evaluation; (iv) reviewing proposals submitted by stockholders for action at meetings of stockholders and, depending on the subject matter, determining the appropriate body, among the board or any of the board committees, to evaluate each proposal and making recommendations to the board regarding action to be taken in response to such proposal; (v) performing such other duties as the board may reasonably request from time to time; and (vi) performing such duties as the CEO may reasonably request from time to time for the purpose of enhancing the chairman's familiarity with the Company and its executives, such as attending the annual Executive Strategic Planning Conference as a representative of the board, and by meeting with the members of management at the request of the CEO or COO. The Company and its stockholders also benefit from having a lead independent director to provide independent board leadership. See "*Director Independence Policies – Lead Independent Director*" for additional information regarding the responsibilities of the lead independent director.

## Other Governance Practices

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

***Board and committee assessments.*** At least once every two years, the board conducts a self-evaluation of the board, its committees, and the individual directors, overseen by the nominating and governance committee.

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

the nominating and governance committee's recommendations.

***Director and executive stock ownership.*** Under the corporate governance guidelines, each director is expected to own at least the lesser of five times the value of the annual cash retainer (not including any committee chair or other supplemental retainers for directors) or 5,000 shares of Lam common stock, by the fifth anniversary of his or her initial election to the board. Guidelines for stock ownership by designated members of the executive management team are described below under "*Compensation Matters – Executive Compensation and Other Information – Compensation Discussion and Analysis.*" All of our directors and designated members of our executive management team were in compliance with the Company's applicable stock ownership guidelines at the end of fiscal year 2015 or have a period of time remaining under the program to do so.

***Communications with board members.*** Any stockholder who wishes to communicate directly with the board of directors, with any board committee or with any individual director regarding the Company may write to the board, the committee or the director c/o Secretary, Lam Research Corporation, 4650 Cushing Parkway, Fremont, California 94538. The secretary will forward all such communications to the appropriate director(s).

Any stockholder, employee, or other person may communicate any complaint regarding any accounting, internal accounting control, or audit matter to the attention of the board's audit committee by sending written correspondence by mail (to Lam Research Corporation, Attention: Board Audit Committee, P.O. Box 5010, Fremont, California 94537-5010) or by phone (855-208-8578) or internet (through the Company's third party provider web site at [www.lamhelpline.ethicspoint.com](http://www.lamhelpline.ethicspoint.com)). The audit committee has established procedures to ensure that employee complaints or concerns regarding audit or accounting matters will be received and treated anonymously (if the complaint or concern is submitted anonymously and permitted under applicable law).

## Meeting Attendance

All of the directors attended at least 75% of the aggregate number of board meetings and meetings of board committees on which they served during their board tenure in fiscal year 2015, with the exception of Dr. El-Mansy, who attended 100% of all such meetings in all prior years of service and 70% in fiscal year 2015. Dr. El-Mansy was unable to attend one board and two compensation committee meetings scheduled within a two week period in fiscal year 2015 due to a serious family medical situation. Our board of directors held a total of five meetings during fiscal year 2015.

We expect our directors to attend the annual meeting of stockholders each year. All individuals who were directors as of the 2014 annual meeting of stockholders attended the 2014 annual meeting of stockholders.

## Board Committees

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

**Figure 7. Committee Membership**

Current Committee Memberships			
Name	Audit	Compensation	Nominating and Governance
Eric K. Brandt	Chair		
Michael R. Cannon	x		x
Youssef A. El-Mansy		x	
Christine A. Heckart	x <sup>(1)</sup>		
Grant M. Inman		x	x <sup>(2)</sup>
Catherine P. Lego		Chair <sup>(3)</sup>	x
William R. Spivey	x		
Abhijit Y. Talwalkar		x <sup>(4)</sup>	Chair <sup>(5)</sup>
<b>Total Number of Meetings Held in FY2015</b>	<b>8</b>	<b>5</b>	<b>4</b>

- (1) Ms. Heckart was appointed as a member of the audit committee effective August 27, 2015. Until that time, she served as a member of the compensation committee.
- (2) Mr. Inman served as chair of the nominating and governance committee through August 26, 2015, remaining thereafter as a member of the committee.
- (3) Ms. Lego was appointed as chair of the compensation committee effective August 27, 2015. Until that time, she served as a member of the audit committee.
- (4) Mr. Talwalkar served as chair of the compensation committee through August 26, 2015, remaining thereafter as a member of the committee.
- (5) Mr. Talwalkar was appointed as a member of the nominating and governance committee effective May 14, 2015 and as chair of the nominating and governance committee effective August 27, 2015.

**Audit committee.** The purpose of the audit committee is to oversee the Company's accounting and financial reporting processes and the audits of our financial statements, including the system of internal controls. As part of its responsibilities, the audit committee reviews and oversees potential conflict of interest situations, transactions required to be disclosed pursuant to Item 404 of Regulation S-K of the SEC and any other transaction involving an executive or board member. A copy of the audit committee charter is available on the investors' page of our web site at <http://investor.lamresearch.com/corporate-governance.cfm>.

The board concluded that all audit committee members are non-employee directors who are independent in accordance with the NASDAQ listing standards and SEC rules for audit committee member independence and that each audit committee member is able to read and understand fundamental financial statements as required by the NASDAQ listing standards. The board also determined that Mr. Brandt, the chair of the committee, is an "audit committee financial expert" as defined in the SEC rules.

**Compensation committee.** The purpose of the compensation committee is to discharge certain responsibilities of the board relating to executive compensation; to oversee incentive, equity-based plans and other compensatory plans in which the Company's executive officers and/or directors participate; and to produce an annual report on executive compensation for inclusion as required in the Company's annual proxy statement. The compensation committee is authorized to perform the responsibilities of the committee referenced above and described in the charter. A copy of the compensation committee charter is available on the investors' page of our web site at <http://investor.lamresearch.com/corporate-governance.cfm>.

The board concluded that all members of the compensation committee are non-employee directors who are independent in accordance with Rule 16b-3 of the Exchange Act and the NASDAQ criteria for director and compensation committee member independence and who are outside directors for purposes of section 162(m) of the Code.

**Nominating and governance committee.** The purpose of the nominating and governance committee is to identify individuals qualified to serve as members of the board of the Company, to recommend nominees for election as directors of the Company, to oversee self-evaluations of the board's performance, to develop and recommend corporate governance guidelines to the board, and to provide oversight with respect to corporate governance. A copy of the nominating and governance committee charter is available on the investors' page of our web site at <http://investor.lamresearch.com/corporate-governance.cfm>.

The board concluded that all nominating and governance committee members are non-employee directors who are independent in accordance with the NASDAQ criteria for director independence.

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The nominating and governance committee will consider for nomination persons properly nominated by stockholders in accordance with the Company's bylaws and other procedures described in the "Voting and Meeting Information – Other Meeting Information – Stockholder-Initiated Proposals and Nominations for 2015 Annual Meeting" section below. Subject to then-applicable law, stockholder nominations for director will be evaluated by the Company's nominating and governance committee in accordance with the same criteria as is applied to candidates identified by the nominating and governance committee or other sources.

## Board's Role in Risk Oversight

The board is actively engaged in risk oversight. Management regularly reports to the board on its risk assessments and risk mitigation strategies for the major risks of our business. Generally the board exercises its oversight responsibility

directly; however, in specific cases, such responsibility has been delegated to board committees. Committees that have been charged with risk oversight regularly report to the board on those risk matters within their areas of responsibility. Risk oversight responsibility has been delegated to board committees as follows:

- Our audit committee oversees risks related to the Company's accounting and financial reporting, internal controls, and the auditing of our annual financial statements. The audit committee also oversees risks related to our independent registered public accounting firm and our internal audit function.
- Our compensation committee oversees risks related to the Company's equity, and executive compensation programs and plans.
- Our nominating and governance committee oversees risks related to director independence, board and board committee composition and CEO succession planning.

## Director Compensation

Our director compensation is designed to attract and retain high caliber directors and to align director interests with those of stockholders. Director compensation is reviewed and determined annually by the board (in the case of Messrs. Newberry and Anstice, by the independent members of the board), upon recommendation from the compensation committee. Non-employee director compensation (including the compensation of Mr. Newberry, who is currently our non-employee chairman and was previously an employee chairman for a portion of fiscal year 2015) is described below. Mr. Anstice, whose compensation as CEO is described below under "Compensation Matters – Executive Compensation and Other Information – Compensation Discussion and Analysis," does not receive additional compensation for his service on the board.

**Non-employee director compensation.** Non-employee directors receive annual cash retainers and equity awards. The chairman of the board, committee chairs, the lead independent director and committee members receive additional cash retainers. Non-employee directors who join the board or a committee midyear receive prorated cash retainers and equity awards, as applicable. Our non-employee director compensation plans are based on service during the calendar year; however, SEC rules require us to report compensation in this proxy statement on a fiscal-year basis. Cash compensation paid to non-employee directors for the fiscal year ended June 28, 2015 is shown in the table below, together with the annual cash compensation program components in effect for calendar years 2014 and 2015.

**Figure 8. Director Annual Retainers**

Annual Retainers	Calendar Year 2015 (\$)	Calendar Year 2014 (\$)	Fiscal Year 2015 (\$)
Non-employee Director	60,000	60,000	60,000
Lead Independent Director	20,000	20,000	20,000
Chairman <sup>(1)</sup>	280,000	—	280,000
Audit Committee – Chair	25,000	25,000	25,000
Audit Committee – Member	12,500	12,500	12,500
Compensation Committee – Chair	20,000	20,000	20,000
Compensation Committee – Member	10,000	10,000	10,000
Nominating and Governance Committee – Chair	10,000	10,000	10,000
Nominating and Governance Committee – Member	5,000	5,000	5,000

<sup>(1)</sup> The supplemental retainer for the chairman of the board became effective as of January 1, 2015 and was paid in its entirety in February 2015. The amount and timing of cash received by the chairman in calendar year 2014 to supplement the amount of his cash retainer paid on the same terms as the annual cash retainer for all non-employee directors is described below under "Chairman compensation."

Each non-employee director also receives an annual equity grant on the first Friday following the annual meeting (or, if the designated date falls within a blackout window under applicable Company policies, on the first business day such grant is permissible under those policies) with a targeted grant date value equal to \$190,000 (the number of RSUs subject to the award is determined by dividing \$190,000 by the closing price of a share of Company common stock as of the date of grant, rounded down to the nearest 10 shares). These grants generally vest on October 31 in the year following the grant and are subject to the terms and conditions of the Company's 2007 Stock Incentive Plan, as amended, or the "2007 Plan," and the applicable award agreements. These grants immediately vest in full: (i) if a non-employee director dies or becomes subject to a "disability" (as determined pursuant to the 2007 Plan), (ii) upon the occurrence of a "Change in Control" (as defined in the 2007 Plan), or (iii) on the date of the annual meeting if the annual meeting during the year in which the award was expected to vest occurs prior to the vest date and the non-employee director is not re-elected or retires or resigns effective immediately prior to the annual meeting. Non-employee directors who commence service after the annual award has been granted receive a pro-rated grant based on the number of regular board meetings remaining in the year as of the date of the director's election.

On November 7, 2014, each director other than Mr. Anstice received a grant of 2,400 RSUs for services during calendar year 2015. Unless there is an acceleration event, these RSUs will vest in full on October 31, 2015, subject to the director's continued service on the board.

**Chairman compensation.** Mr. Newberry, who served as vice-chairman from December 7, 2010 until November 1, 2012 and since such date has served as chairman, has a chairman's agreement documenting his responsibilities, described above under "Governance Matters – Corporate Governance – Leadership Structure of the Board," and compensation. Mr. Newberry entered into a chairman's agreement with the Company commencing on January 1, 2015 and expiring on December 31, 2015, subject to the right of earlier termination in certain circumstances and a one year extension upon mutual written agreement of the parties. The agreement provides that Mr. Newberry will serve as chairman (and not as an employee or officer) and in addition to his regular compensation as a non-employee director, he receives an additional cash retainer of \$280,000.

Prior to January 1, 2015, Mr. Newberry had an employment agreement with the Company that commenced on January 1, 2012 and expired on December 31, 2014. The agreement provided for annual compensation of \$500,000, subject to adjustment at the discretion of the independent members of the board. His annual compensation was adjusted to \$530,000 effective March 31, 2014. His annual compensation for calendar year 2014 was paid partly in equity and partly in cash as follows: he received an RSU grant with a targeted grant

date value of \$190,000 and a \$60,000 cash retainer on the same terms as non-employee directors' annual equity grants and cash retainers, and he received the remaining \$280,000 of his annual compensation in cash. Mr. Newberry was eligible to participate in 2014 in the Company's Elective Deferred Compensation Plan that is generally applicable to executives of the Company, subject to the general terms and conditions of such plan. He continues to maintain a balance in the plan until he no longer performs service for the Company as a director but is no longer eligible to defer any compensation into the plan.

The following table shows compensation for fiscal year 2015 for directors other than Mr. Anstice:

**Figure 9. FY2015 Director Compensation**

Director Compensation for Fiscal Year 2015				
	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)(2)</sup>	All Other Compensation (\$) <sup>(3)</sup>	Total (\$)
Stephen G. Newberry	483,231 <sup>(4)</sup>	187,728	11,487	682,446
Eric K. Brandt	85,000 <sup>(5)</sup>	187,728	—	272,728
Michael R. Cannon	77,500 <sup>(6)</sup>	187,728	—	265,228
Youssef A. El-Mansy	70,000 <sup>(7)</sup>	187,728	22,432	280,160
Christine A. Heckart	70,000 <sup>(8)</sup>	187,728	—	257,728
Grant M. Inman	100,000 <sup>(9)</sup>	187,728	22,432	310,160
Catherine P. Lego	77,500 <sup>(10)</sup>	187,728	21,279	286,507
Krishna C. Saraswat	60,000 <sup>(11)</sup>	187,728	—	247,728
William R. Spivey	72,500 <sup>(12)</sup>	187,728	22,432	282,660
Abhijit Y. Talwalkar	80,000 <sup>(13)</sup>	187,728	—	267,728

- (1) The amounts shown in this column represent the grant date fair value of unvested RSU awards granted during fiscal year 2015 in accordance with Financial Accounting Standards Board Accounting Standards Codification 718, Compensation – Stock Compensation, or "ASC 718." However, pursuant to SEC rules, these values are not reduced by an estimate for the probability of forfeiture. The assumptions used to calculate the fair value of the RSUs in fiscal year 2015 are set forth in Note 5 to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2015.
- (2) On November 7, 2014, each director who was on the board received an annual grant of 2,400 RSUs based on the \$78.93 closing price of Lam's common stock and the target value of \$190,000, rounded down to the nearest 10 shares.
- (3) Represents the portion of medical, dental, and vision premiums paid by the Company.
- (4) Mr. Newberry received \$483,231, representing his \$280,000 chairman retainer and \$60,000 annual retainer as a director and the remainder of his annual cash compensation under his employment agreement ended December 31, 2014.
- (5) Mr. Brandt received \$85,000, representing his \$60,000 annual retainer and \$25,000 as the chair of the audit committee.
- (6) Mr. Cannon received \$77,500, representing his \$60,000 annual retainer, \$12,500 as a member of the audit committee, and \$5,000 as a member of the nominating and governance committee.

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- (7) Dr. El-Mansy received \$70,000, representing his \$60,000 annual retainer and \$10,000 as a member of the compensation committee.
- (8) Ms. Heckart received \$70,000, representing her \$60,000 annual retainer and \$10,000 as a member of the compensation committee.
- (9) Mr. Inman received \$100,000, representing his \$60,000 annual retainer, \$20,000 as lead independent director, \$10,000 as the chair of the nominating and governance committee, and \$10,000 as a member of the compensation committee.
- (10) Ms. Lego received \$77,500, representing her \$60,000 annual retainer, \$12,500 as a member of the audit committee, and \$5,000 as a member of the nominating and governance committee.
- (11) Dr. Saraswat received \$60,000, representing his \$60,000 annual retainer.
- (12) Dr. Spivey received \$72,500, representing his \$60,000 annual retainer and \$12,500 as a member of the audit committee.
- (13) Mr. Talwalkar received \$80,000, representing his \$60,000 annual retainer and \$20,000 as chair of the compensation committee.

**Other benefits.** Any members of the board enrolled in the Company's health plans as of or prior to December 31, 2012 can participate after retirement from the board in the Company's Retiree Health Plans. The board eliminated this benefit for any person who became a director after December 31, 2012. The most recent valuation of the Company's accumulated post-retirement benefit obligation under Accounting Standards Codification 715, *Compensation – Retirement Benefits*, or "ASC 715," as of

June 28, 2015, for eligible former directors and the current directors who may become eligible is shown below. Factors affecting the amount of post-retirement benefit obligation include age at enrollment, age at retirement, coverage tier (e.g., single, plus spouse, plus family), interest rate, and length of service.

**Figure 10. FY2015 Accumulated Post-Retirement Benefit Obligations**

Director Compensation for Fiscal Year 2015	
Name	Accumulated Post-Retirement Benefit Obligation, as of June 28, 2015 (\$)
Stephen G. Newberry	767,000
Eric K. Brandt	—
Michael R. Cannon	—
Youssef A. El-Mansy	500,000
Christine A. Heckart	—
Grant M. Inman	391,000
Catherine P. Lego	435,000
Krishna C. Saraswat	—
William R. Spivey	704,000
Abhijit Y. Talwalkar	—

# Compensation Matters

## Executive Compensation and Other Information

### Compensation Discussion and Analysis

This Compensation Discussion and Analysis, or “CD&A,” describes our executive compensation program. It is organized into the following four sections:

- I. Overview of Executive Compensation (Including Our Philosophy and Program Design)
- II. Executive Compensation Governance and Procedures
- III. Primary Components of Named Executive Officer Compensation; Calendar Year 2014 Compensation Payouts; Calendar Year 2015 Compensation Targets and Metrics
- IV. Tax and Accounting Considerations

Our CD&A discusses compensation earned by our fiscal year 2015 “Named Executive Officers,” or “NEOs,” who are as follows:

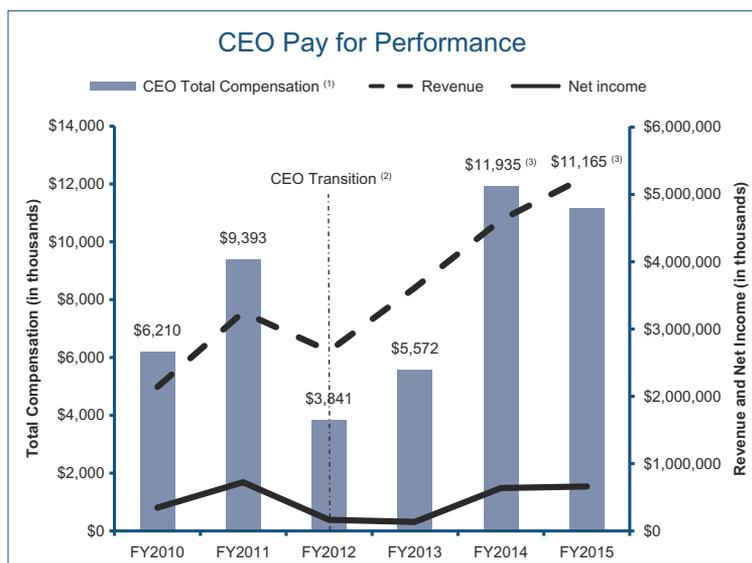
**Figure 11. FY2015 NEOs**

Named Executive Officer	Position(s)
Martin B. Anstice	President and Chief Executive Officer
Timothy M. Archer	Executive Vice President and Chief Operating Officer
Douglas R. Bettinger	Executive Vice President and Chief Financial Officer
Richard A. Gottscho	Executive Vice President, Global Products
Sarah A. O’Dowd	Senior Vice President, Chief Legal Officer and Secretary

### I. OVERVIEW OF EXECUTIVE COMPENSATION

To align with stockholders’ interests, our executive compensation program is designed to foster a pay-for-performance culture and achieve the executive compensation objectives set forth in “*Executive Compensation Philosophy and Program Design – Executive Compensation Philosophy*” below. We have structured our compensation program and payouts to reflect these goals. Our CEO’s compensation in relation to our revenue and net income is shown in Figure 12 below.

**Figure 12. FY2010-FY2015 CEO Pay for Performance**



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- (1) "CEO Total Compensation" consists of base salary, annual incentive payments, accrued values of the cash payments under the long-term incentive program and grant date fair values of equity-based awards under the long-term incentive program, and all other compensation as reported in the "Summary Compensation Table" below.
- (2) The CEO Total Compensation for fiscal year 2012 reflects Mr. Anstice's succession of Mr. Newberry as our President and CEO as of January 1, 2012.
- (3) The CEO Total Compensation for fiscal years 2015 and 2014 reflects awards covering a three-year performance period as compared to the two-year period in all other prior fiscal years. The one-time 2014 Gap Year Award, with a value of \$3,074,271 is reflected in the "Summary Compensation Table" below, is not included in fiscal year 2014 CEO Total Compensation in order to allow readers to more easily compare compensation in prior and subsequent periods and better reflect the compensation payable in any fiscal year following the transition. See "Long-Term Incentive Program – Design" for additional information regarding the impact of the Gap Year Award.

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

- Our business, our industry environment and our financial performance; and
- Our executive compensation philosophy and program design.

### Our Business, Our Industry Environment and Our Financial Performance

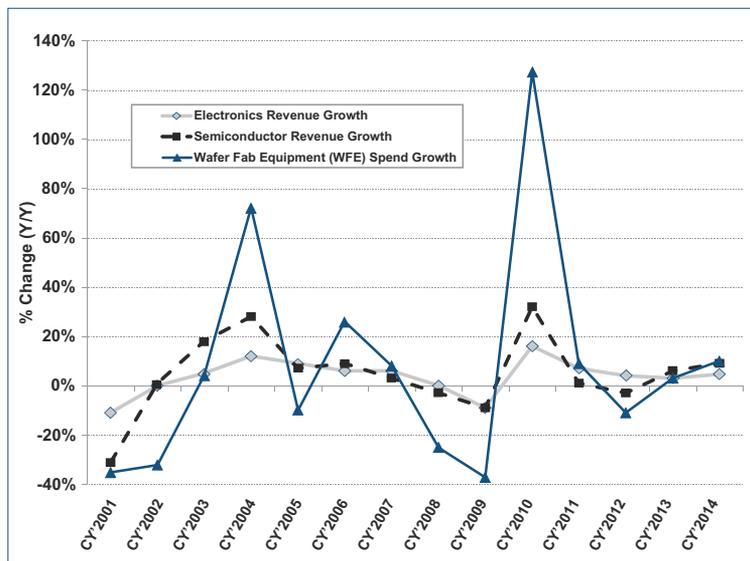
Lam Research has been an innovative supplier of wafer fabrication equipment and services to the semiconductor industry for more than 35 years. Our customers include semiconductor manufacturers that make memory, microprocessors, and other logic integrated circuits for a wide

range of electronics; including cell phones, computers, tablets, storage devices, and networking equipment.

Our market-leading products are designed to help our customers build the smaller, faster and more powerful devices that are necessary to power the capabilities required by end users. The process of integrated circuits fabrication consists of a complex series of process and preparation steps, and our product offerings in deposition, etch and clean address a number of the most critical steps in the fabrication process. We leverage our expertise in semiconductor processing to develop technology and/or productivity solutions that typically benefit our customers through lower defect rates, enhanced yields, faster processing time, and reduced cost as well as by facilitating their ability to meet more stringent performance and design standards.

The semiconductor capital equipment industry has been highly competitive and characterized by rapid changes in demand. Figure 13 below shows year-over-year changes in revenue growth for each of the electronics industry, the semiconductor industry, and the wafer fabrication equipment segment of the semiconductor equipment industry from 2001 to the present. The semiconductor industry has historically been a highly cyclical industry, with fluctuations responding to changes in the demand for semiconductor devices. The wafer fabrication equipment segment in which we participate has historically exhibited more extreme volatility during these demand cycles as illustrated by the graph below. More recently with consolidation in the customer base, the cyclical behavior in the industry appears to have diminished somewhat. With a reduced number of customers, the volatility in the industry has lessened but our results are more dependent on the spending of any individual customer over certain periods.

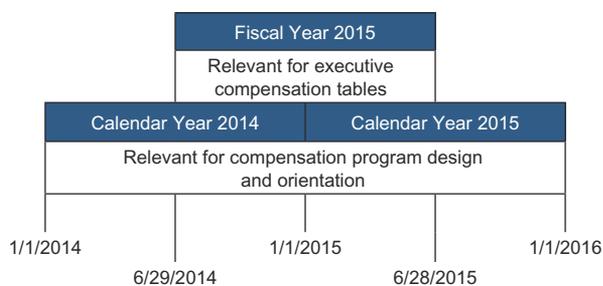
**Figure 13. Revenue Growth by Industry**



Sources: SEMI; World Semiconductor Trade Statistics, Inc. (WSTS); Gartner, Inc.; Lam Research Corporation

Although we have a June fiscal year end, our executive compensation program is generally designed and oriented on a calendar-year basis to correspond with our calendar-year-based business planning. This CD&A generally reflects a calendar-year orientation rather than a fiscal year orientation, as shown in Figure 14 below. The Executive Compensation Tables at the end of this CD&A are based on our fiscal year, as required by SEC regulations.

**Figure 14. Executive Compensation Calendar-Year Orientation**



In calendar year 2014, demand for semiconductor equipment improved relative to calendar year 2013, as device manufacturers invested in leading edge production capacity to support healthy demand for mobile electronics. Against this backdrop, Lam delivered record financial performance.

Highlights for calendar year 2014:

- Achieved record revenues of approximately \$4.9 billion for the calendar year, representing a 23% increase over calendar year 2013;
- Generated operating cash flow of \$838.5 million, which represents approximately 17% of revenues;
- Repurchased approximately 6.2 million shares of common stock under the board of directors-approved \$250 million and \$850 million authorizations, returning approximately \$427 million to stockholders; and
- Paid approximately \$58.6 million in dividends to stockholders.

Investments for wafer fabrication equipment spending have remained solid in the first half of calendar year 2015 as customers transition to next generation technology nodes, which are increasingly complex and more costly to produce.

Lam has continued to generate solid operating income and cash generation with revenues of \$2.9 billion and cash flows from operations of \$483 million earned from the March and June 2015 quarters combined. In May 2015, we announced an increase in our quarterly dividend to \$0.30 per share (with

future dividend payments subject to board review and approval), reflecting the Board's confidence in future cash generation and Lam's commitment to enhancing stockholder value.

## Executive Compensation Philosophy and Program Design

### Executive Compensation Philosophy

The philosophy of our compensation committee that guided this year's awards and payout decisions is that our executive compensation program should:

- provide competitive compensation to attract and retain top talent;
- provide total compensation packages that are fair to employees and reward corporate, organizational and individual performance;
- align pay with business objectives while driving exceptional performance throughout fluctuating business cycles;
- optimize value to employees while maintaining cost-effectiveness to the Company;
- create stockholder value over the long term;
- align annual program to short-term performance and long-term program to longer-term performance;
- recognize that a long-term, high-quality management team is a competitive differentiator for Lam, enhancing customer trust/market share and, therefore, stockholder value; and
- provide rewards when results have been demonstrated.

Our compensation committee's executive compensation objectives are to motivate:

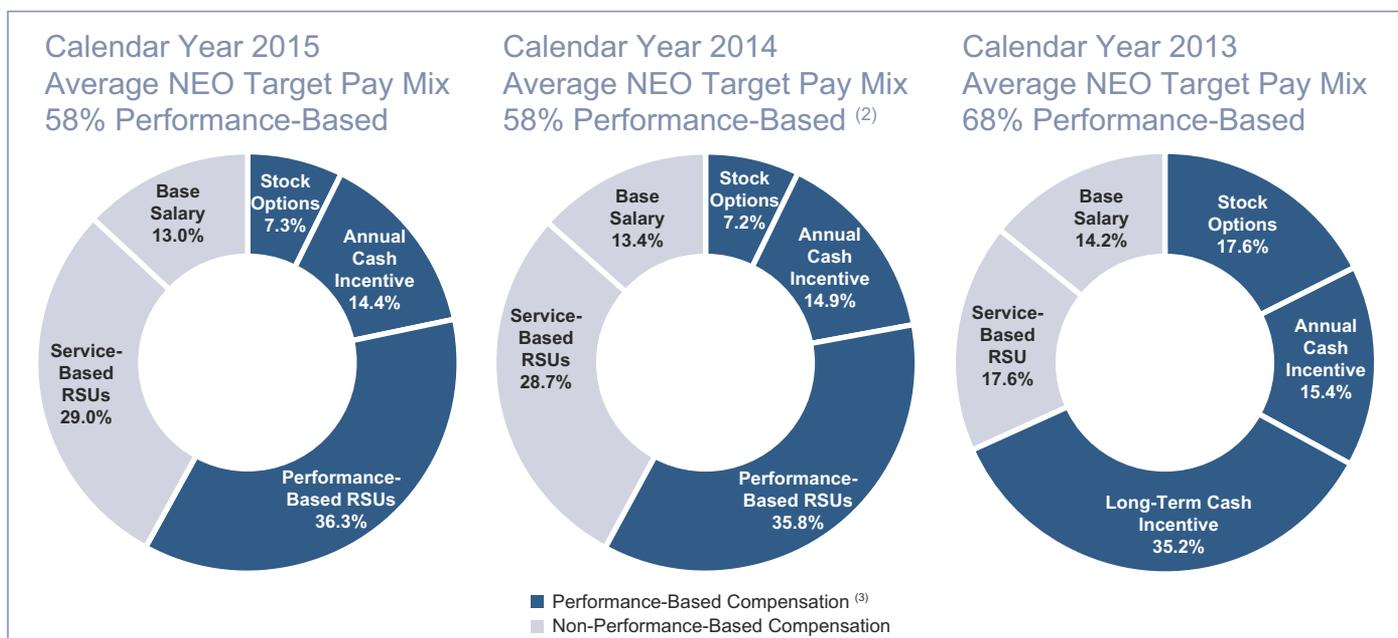
- performance that creates long-term stockholder value;
- outstanding performance at the corporate, organization and individual levels; and
- retention of a long-term, high-quality management team.

### Program Design

Our program design uses a mix of short- and long-term components, and a mix of cash and equity components. Our executive compensation program includes base salary, an annual incentive program, or "AIP," and a long-term incentive program, or "LTIP," as well as stock ownership guidelines and a compensation recovery policy. As illustrated in Figure 15 below, our program design is weighted towards performance and stockholder value. The performance-based program components include AIP cash payouts and market-based equity and stock option awards under the LTIP.

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**Figure 15. NEO Compensation Target Pay Mix Averages <sup>(1)</sup>**



(1) Data in Figure 15 for the calendar year 2015, 2014 and 2013 charts is for the then-applicable NEOs (i.e., fiscal year 2013 NEOs are represented in the calendar year 2013 chart, etc.).

(2) In 2014, the Company issued one-time Gap Year Awards to bridge the transition from a two- to three-year LTIP design. The one-time 2014 Gap Year Awards are not included in 2014 target pay in order to allow readers to more easily compare pay mixes relative to prior periods. See “Long-Term Incentive Program – Design” below for additional information regarding the impact of the Gap Year Award.

(3) For purposes of this illustration, we include performance-based RSUs and stock options as performance-based, but do not classify service-based RSUs as performance-based.

Our stock ownership guidelines for our NEOs are shown in Figure 16 below. The requirements are specified in the alternative of shares or dollars to allow for stock price volatility. Ownership levels as shown below must be achieved within five years of appointment to one of the below positions. Increased requirements due to promotions or an increase in

the ownership guideline must be achieved within five years of promotion or a change in the guidelines. At the end of fiscal year 2015, all of the then-employed NEOs were in compliance with our stock ownership guidelines or have a period of time remaining under the guidelines to meet the required ownership level.

**Figure 16. Executive Stock Ownership Guidelines**

Position	Guidelines (lesser of)
Chief Executive Officer	5x base salary or 65,000 shares
Executive Vice Presidents	2x base salary or 20,000 shares
Senior Vice Presidents	1x base salary or 10,000 shares

**Compensation Recovery, or “Clawback” Policy**

Our executive officers covered by Section 16 of the Exchange Act are subject to the Company’s compensation recovery, or “clawback,” policy. The clawback policy was adopted in August 2014 and will enable us to recover the excess amount of cash incentive-based compensation issued starting in calendar year 2015 to covered individuals when a material restatement of financial results is required within 36 months of the issuance of the original financial statements. A covered individual’s fraud must have materially contributed to the need to issue restated financial statements in order for the clawback

policy to apply to that individual. The recovery of compensation is not the exclusive remedy available in the event that the clawback policy is triggered.

**Highlights of Preferred Compensation-Related Policies, Practices and Provisions**

We maintain preferred policies, practices and provisions related to or in our compensation program, which include those highlighted in “Proxy Statement Summary – Figure 4. Executive Compensation Highlights.”

## II. EXECUTIVE COMPENSATION GOVERNANCE AND PROCEDURES

### Role of the Compensation Committee

Our board of directors has delegated certain responsibilities to the compensation committee, or the “committee,” through a formal charter. The committee <sup>(1)</sup> oversees the compensation programs in which our chief executive officer and his direct executive reports (including all other NEOs) participate. The independent members of our board of directors approve the compensation packages and payouts for our CEO. The CEO is not present for any decisions regarding his compensation packages and payouts.

Committee responsibilities include, but are not limited to: reviewing and approving the Company’s executive compensation philosophy, objectives and strategies; reviewing and approving the appropriate peer group companies for purposes of evaluating the Company’s compensation competitiveness; causing the board of directors to perform a periodic performance evaluation of the CEO; recommending to the independent members of the board of directors (as determined under both NASDAQ’s listing standards and Section 162(m) of the Internal Revenue Code of 1986, as amended) corporate goals and objectives under the Company’s compensation plans, compensation packages (e.g., annual base salary level, annual cash incentive award, long-term incentive award and any employment agreement, severance arrangement, change-in-control arrangement, equity grant, or special or supplemental benefits, and any material amendment to any of the foregoing) as applicable to the CEO and compensation payouts for the CEO; annually reviewing with the CEO the performance of the Company’s other executive officers in light of the Company’s executive compensation goals and objectives and approving the compensation packages and compensation payouts for such individuals; reviewing and recommending for appropriate board action all cash, equity-based and other compensation packages and compensation payouts applicable to the chairman, vice-chairman and other members of the board; and reviewing, and approving where appropriate, equity-based compensation plans.

The committee is authorized to delegate such of its authority and responsibilities as the committee deems proper and consistent with legal requirements to members of the committee, any other committee of the board and one or more officers of the Company in accordance with the provisions of the Delaware General Corporation Law. For additional information on the committee’s responsibilities and authorities, see “*Governance Matters – Corporate Governance – Board Committees – Compensation Committee*” above.

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

### Role of Committee Advisors

The committee is authorized to engage its own independent advisors to assist in carrying out its responsibilities. The committee has engaged the services of Compensia, Inc., or “Compensia,” a national compensation consulting firm, as the committee’s compensation consultant. Compensia provides the committee with independent and objective guidance regarding the amount and types of compensation for our chairman and executive officers and how these amounts and types of compensation compare to other companies’ compensation practices, as well as guidance on market trends, evolving regulatory requirements, compensation of our independent directors, peer group composition and other matters as requested by the committee.

Representatives of Compensia regularly attend committee meetings (including executive sessions without management present), communicate with the committee chair outside of meetings, and assist the committee with the preparation of metrics and goals. Compensia reports to the committee, not to management. At the committee’s request, Compensia meets with members of management to gather and discuss information that is relevant to advising the committee. The committee may replace Compensia or hire additional advisors at any time. Compensia has not provided any other services to the committee or to our management and has received no compensation from us other than with respect to the services described above. The committee assessed the independence of Compensia pursuant to SEC rules and NASDAQ listing standards, including the following factors: (1) the absence of other services provided by it to the Company; (2) the fees paid to it by the Company as a percentage of its total revenue; (3) its policies and procedures to prevent conflicts of interest; (4) the absence of any business or personal relationships with committee members; (5) the fact that it does not own any Lam common stock; and (6) the absence of any business or personal relationships with our executive officers. The committee assessed this information and concluded that the work of Compensia had not raised any conflict of interest.

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

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## Role of Management

Our CEO, with support from our human resources and finance organizations, develops recommendations for the compensation of our other executive officers. Typically, these recommendations cover base salaries, annual incentive program target award opportunities, long-term incentive program target award opportunities and the criteria upon which these award opportunities may be earned, as well as actual payout amounts under the annual and long-term incentive programs.

The committee considers the CEO's recommendations within the context of competitive compensation data, the Company's compensation philosophy and objectives, current business conditions, the advice of Compensia, and any other factors it considers relevant. At the request of the committee, our chairman also provides input to the committee.

Our CEO attends committee meetings at the request of the committee, but leaves the meeting for any deliberations related to and decisions regarding his own compensation, when the committee meets in executive session, and at any other time requested by the committee.

## Peer Group Practices and Survey Data

In establishing the total compensation levels of our executive officers as well as the mix and weighting of individual compensation elements, the committee monitors compensation data from a group of comparably sized companies in the technology industry, or the "Peer Group," which may differ from peer groups used by stockholder advisory firms. The committee selects the companies constituting our Peer Group based on their comparability to our lines of business and industry, annual revenue, and market capitalization, and our belief that we are likely to compete with them for executive talent. Our Peer Group is focused on U.S. based, public semiconductor, semiconductor equipment and materials companies, and similarly sized high-technology equipment and hardware companies with a global presence and a significant investment in research and development. Figure 17 below summarizes how the Peer Group companies compare to the Company:

**Figure 17. 2015 Peer Group Revenue and Market Capitalization**

Metric	Lam Research (\$M)	Target for Peer Group	Peer Group Median (\$M)
Revenue (last completed four quarters as of June 5, 2014)	4,345	0.5 to 2 times Lam	4,780
Market Capitalization (30-day average as of June 5, 2014)	9,571	0.33 to 3 times Lam	11,775

Based on these criteria, the Peer Group and targets may be modified from time to time. Our Peer Group was reviewed in

August 2014 for calendar year 2015 compensation decisions and based on the criteria identified above, we added one new peer (Freescale Semiconductor, Inc.) and removed two former peers (LSI Corporation, which was acquired by Avago Technologies, and Micron Technology). Our Peer Group consists of the companies listed in Figure 18 below.

**Figure 18. CY2015 Peer Group Companies**

Advanced Micro Devices, Inc.	KLA-Tencor Corporation
Agilent Technologies, Inc.	Marvell Technology Group Ltd
Analog Devices, Inc.	Maxim Integrated Products, Inc.
Applied Materials, Inc.	NetApp, Inc.
Avago Technologies	NVIDIA Corporation
Broadcom Corporation	ON Semiconductor Corporation
Corning Incorporated	SanDisk Corporation
Freescale Semiconductor	Xilinx, Inc.
Juniper Networks, Inc.	

We derive revenue, market capitalization and NEO compensation data from public filings made by our Peer Group companies with the SEC and other publicly available sources. Radford Technology Survey data may be used to supplement compensation data from public filings as needed. The committee reviews compensation practices and selected data on base salary, bonus targets, total cash compensation, equity awards, and total compensation drawn from the Peer Group companies and/or Radford Technology Survey primarily as a reference to ensure compensation packages are consistent with market norms.

Base pay levels for each executive officer are generally set with reference to the middle of the market range (40th-60th percentile), variable pay target award opportunities and total direct compensation for each executive officer are generally designed to deliver at or above market median (50th-75th percentile) compensation for target performance. For those executive officers new to their roles, compensation arrangements may be designed to deliver below market compensation. However, the committee does not "target" pay at any specific percentile. Rather, individual pay positioning depends on a variety of factors, such as prior job performance, job scope and responsibilities, skill set, prior experience, time in position, internal comparisons of pay levels for similar skill levels or positions, our goals to attract and retain executive talent, Company performance and general market conditions.

## Assessment of Compensation Risk

Management, with the assistance of Compensia, the committee's independent compensation consultant, conducted a compensation risk assessment in 2015 and concluded that the Company's current employee compensation programs are not reasonably likely to have a material adverse effect on the Company's business.

## 2014 Say on Pay Voting Results; Company Response

We evaluate our executive compensation program annually. Among other things, we consider the outcome of our most recent Say on Pay vote and any input we receive from our stockholders. In 2014, the committee made changes to our executive compensation program to further strengthen our pay for performance alignment and to bring certain aspects of our long-term incentive program more in line with evolving market

### III. PRIMARY COMPONENTS OF NAMED EXECUTIVE OFFICER COMPENSATION; CALENDAR YEAR 2014 COMPENSATION PAYOUTS; CALENDAR YEAR 2015 COMPENSATION TARGETS AND METRICS

This section describes the components of our executive compensation program. It also describes, for each component, the payouts to our NEOs for calendar year 2014 and the forward-looking actions taken with respect to our NEOs in calendar year 2015.

#### Base Salary

We believe the purpose of base salary is to provide competitive compensation to attract and retain top talent and to provide compensation to employees, including our NEOs, with a fixed and fair amount of compensation for the jobs they perform. Accordingly, we seek to ensure that our base salary levels are competitive in reference to Peer Group practice and market survey data. Adjustments to base salary are generally considered by the committee each year in February.

For calendar years 2015 and 2014, base salaries for NEOs other than our CEO in 2014 were determined by the committee in February of each year and became effective on March 31 of that year, based on the factors described above. For 2015, the base salaries for all the NEOs, including Mr. Anstice, were increased by 3% in order to remain competitive against our Peer Group. The base salaries of the NEOs for calendar years 2015 and 2014 are as follows:

**Figure 19. NEO Annual Base Salaries**

Named Executive Officer	Annual Base Salary as of March 31, 2015 (\$)	Annual Base Salary as of March 31, 2014 (\$)
Martin B. Anstice	927,000	900,000
Timothy M. Archer	618,000	600,000
Douglas R. Bettinger	540,000	525,000
Richard A. Gottscho	540,000	525,000
Sarah A. O'Dowd	427,500	415,000

practices. In 2014, our stockholders approved our 2014 advisory vote on executive compensation, with 96.4% of the votes cast in favor of the advisory proposal. Our most recent Say on Pay vote signifies our stockholders' approval of those changes. We have not made any material changes to our programs and practices in 2015. Additionally, we continue to further enhance our disclosure regarding our compensation program and practices.

#### Annual Incentive Program

##### Design

Our annual incentive program is designed to provide short-term, performance-based compensation that: (i) is based on the achievement of pre-set annual financial, strategic and operational objectives aligned with outstanding performance throughout fluctuating business cycles, and (ii) will allow us to attract and retain top talent, while maintaining cost-effectiveness to the Company. The committee establishes individual target award opportunities for each NEO as a percentage of base salary. Specific target award opportunities are determined based on job scope and responsibilities, as well as an assessment of Peer Group data. Awards have a maximum payment amount defined as a multiple of the target award opportunity. The maximum award for 2014 and 2015 was set at 2.25 times target, consistent with prior years.

##### Annual incentive program components

Annual incentive program components, each of which plays a role in determining actual payments made, include:

- a Funding Factor,
- a Corporate Performance Factor, and
- various Individual Performance Factors (formerly known as Organization/Individual Performance Factors).

The Funding Factor is set by the committee to create a maximum payout amount from which annual incentive program payouts may be made. The committee may exercise negative (but not positive) discretion against the Funding Factor result, and generally the entire funded amount is not paid out. Achievement of a minimum level of performance against the Funding Factor goals is required to fund any program payments. In February 2014, for calendar year 2014, the committee set non-GAAP operating income as a percentage of revenue as the metric for the Funding Factor, with the following goals:

- a minimum achievement of 5% non-GAAP operating income as a percentage of revenue was required to fund any program payments, and

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- achieving non-GAAP operating income (as a percentage of revenue) greater than or equal to 20% would result in the maximum payout potential of 225% of target, with actual funding levels interpolated between those points.

The committee selected non-GAAP operating income because it believes that operating income is the performance metric that best reflects core operating results.<sup>(2)</sup> Non-GAAP operating income is considered useful to investors for analyzing business trends and comparing performance to prior periods. By excluding certain costs and expenses that are not indicative of core results, non-GAAP results are more useful for analyzing business trends over multiple periods.

As a guide for using negative discretion against the Funding Factor results and for making payout decisions, the committee primarily tracks the results of the following two components that are weighted equally in making payout decisions, and against which discretion may be applied in a positive or negative direction, provided the Funding Factor result is not exceeded:

- the Corporate Performance Factor, which is based on corporate-wide metrics and stretch goals that apply to all NEOs; and
- the Individual Performance Factors, which are based on organization-specific metrics and stretch goals and individual performance that apply to each individual NEO.

The specific metrics and goals, and their relative weightings, for the Corporate Performance Factor are determined by the committee based upon the recommendation of our CEO, and the Individual Performance Factors are determined by our CEO, or in the case of the CEO, by the committee.

The metrics and goals for the Corporate and Individual Performance Factors are set annually. Goals are set depending on the business environment, to ensure that they are stretch goals regardless of changes in the business environment. Accordingly, as business conditions improve, goals are set to require better performance, and as business conditions deteriorate, goals are set to require stretch performance under more difficult conditions.

We believe that, over time, outstanding business results create stockholder value. Consistent with this belief, multiple performance-based metrics (non-GAAP operating income, product market share, and strategic operational and organizational metrics) are established for our NEOs as part of the Corporate and Individual Performance Factors.

We believe the metrics and goals set under this program, together with the exercise of discretion by the committee as described above, have been effective to motivate our NEOs and the organizations they lead and to achieve pay-for-performance results.

<sup>(2)</sup> Non-GAAP results are designed to provide information about performance without the impact of certain non-recurring and other non-operating line items. Non-GAAP operating income is derived from GAAP results, with charges and credits in the following line items excluded from GAAP results for applicable quarters during fiscal years 2015 and 2014, restructuring charges, integration-related costs, costs associated with rationalization of certain product configurations, amortization related to intangible assets acquired in the Novellus transaction, acquisition-related inventory fair value impact, expenses associated with the synthetic lease impairment, impairment of a long-lived asset, costs associated with the disposition of business, and impairment of goodwill.

## Figure 20. Annual Incentive Program Payouts

Calendar Year	Average NEO's Annual Incentive Payout as % of Target Award Opportunity	Business Environment
2014	127	Strong operating performance supported by stable economic conditions and healthy demand for semiconductor equipment; Company growth in various growing industry technology inflections
2013	105	Healthy demand for semiconductor equipment with stable economic conditions and favorable supply demand conditions; delivered on annualized cost savings targets defined in integration plans
2012	93	Demand for semiconductor equipment declined slightly year-over-year as global economic conditions remained weak; positive execution against integration objectives

### Calendar year 2014 annual incentive program parameters and payout decisions

In February 2014, the committee set the calendar year 2014 target award opportunity, the metrics and goals for the Funding Factor, the metrics and annual goals for the Corporate Performance Factor, and the metrics and goals for the Organization/Individual Performance Factors for each NEO were established. In February 2015, the committee considered the actual results under these factors and made

payout decisions for the calendar year 2014 program, all as described below.

*2014 Annual Incentive Program Target Award Opportunities.* The annual incentive program target award opportunities for calendar year 2014 for each NEO were as set forth in Figure 21 below in accordance with the principles set forth above under "Peer Group Practices and Survey Data."

**2014 Annual Incentive Program Corporate Performance Factor.** In February 2014, the committee set non-GAAP operating income as a percentage of revenue as the metric for the calendar year 2014 Corporate Performance Factor, and set:

- a goal of 18% of revenue for the year, which was designed to be a stretch goal, and which would result in a Corporate Performance Factor of 1.00;
- a minimum Corporate Performance Factor of 0.20 for any payout; and
- a maximum Corporate Performance Factor of 1.50 for the maximum payout.

These goals were designed to be stretch goals. Actual non-GAAP operating income percentage was 19.4% of revenue for calendar year 2014. This performance resulted in a total Corporate Performance Factor for calendar year 2014 of 1.14.

**2014 Annual Incentive Program Organization/Individual Performance Factor.** For 2014, the organization-specific performance metrics and goals for each NEO's Organization/Individual Performance Factor were set on an annual basis, and were designed to be stretch goals. The Organization/Individual Performance Factor for Mr. Anstice for calendar year 2014 was based on the average of the Organization/Individual Performance Factors of all of the organizations reporting to him. For all other NEOs, their respective Organization/Individual Performance Factors were based on market share and/or strategic, operational and organizational performance goals specific to the organizations they managed, as described in more detail below.

The accomplishments of actual organizational/individual performance against the established goals described below during 2014 were considered.

- Mr. Archer's Organization/Individual Performance Factor for calendar year 2014 was based on the accomplishment of market share, strategic, operational and organizational development goals for the global sales organization, the customer support business group and global operations.

- Mr. Bettinger's Organization/Individual Performance Factor for calendar year 2014 was based on the accomplishment of strategic, operational and organizational development goals for finance, global information systems and investor relations.
- Dr. Gottscho's Organization/Individual Performance Factor for calendar year 2014 was based on the accomplishment of market share, strategic, operational and organizational development goals for the product groups for which he had responsibility, deposition, etch, and clean.
- Ms. O'Dowd's Organization/Individual Performance Factor for calendar year 2014 was based on the accomplishment of strategic, operational and organizational development goals for the legal department.

In consideration of the above accomplishments, as well as the teamwork demonstrated to deliver the overall strong company performance in 2014, the committee exercised discretion such that each NEO received an Organization/Individual Performance Factor of 1.11 for the 2014 calendar year.

**2014 Annual Incentive Program Payout Decisions.** In February 2015, in light of the Funding Factor results and based on the above results and decisions, the committee approved the following payouts for the calendar year 2014 annual incentive program for each NEO, which were substantially less than the maximum payout available under the Funding Factor:

**Figure 21. CY2014 Annual Incentive Program Payouts**

Named Executive Officer	Target Award Opportunity (% of Base Salary)	Target Award Opportunity (\$) <sup>(1)</sup>	Maximum Payout under Funding Factor (219.6% of Target Award Opportunity) (\$) <sup>(2)</sup>	Actual Payouts (\$)
Martin B. Anstice	150	1,350,000	2,964,600	1,708,290
Timothy M. Archer	110	660,000	1,449,360	835,164
Douglas R. Bettinger	90	472,500	1,037,610	597,902
Richard A. Gottscho	90	472,500	1,037,610	597,902
Sarah A. O'Dowd	80	332,000	729,072	420,113

<sup>(1)</sup> Calculated by multiplying each NEO's annual base salary for the calendar year 2014 by his or her respective target award opportunity percentage.

<sup>(2)</sup> The Funding Factor resulted in a potential payout of up to 219.6% of target award opportunity for the calendar year (based on the actual non-GAAP operating income percentage results detailed under "2014 Annual Incentive Program Corporate Performance Factor" above and the specific goals set forth in the second paragraph under "Annual incentive program components" above).

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## Calendar year 2015 annual incentive program parameters

In February 2015, the committee set the target award opportunity for each NEO as a percentage of base salary, and consistent with prior years set a cap on payments equal to 2.25 times the target award opportunity. The target award opportunity for each NEO is shown in Figure 22 below.

**Figure 22. CY2015 Annual Incentive Program Target Award Opportunities**

Named Executive Officer	Target Award Opportunity (% of Base Salary)
Martin B. Anstice	150
Timothy M. Archer	110
Douglas R. Bettinger	90
Richard A. Gottscho	90
Sarah A. O'Dowd	80

The committee also approved the annual metric for the Funding Factor and for the Corporate Performance Factor as non-GAAP operating income as a percentage of revenue, and set the annual goals for the Funding Factor and also the Corporate Performance Factor. Consistent with the program design, the Corporate Performance Factor goal is more difficult to achieve than the Funding Factor goal. Individual Performance Factor metrics and goals were also established for each NEO. These include strategic and operational performance goals specific to individuals and their business organization. As a result, each NEO has multiple performance metrics and goals under this program. All goals were designed to be stretch goals.

## Long-Term Incentive Program

### Design

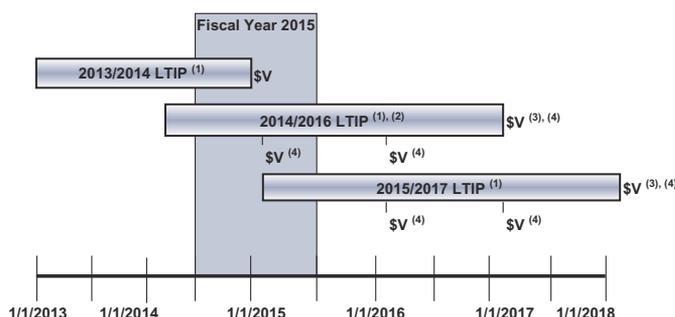
Our long-term incentive program, or "LTIP," is designed to attract and retain top talent, provide competitive levels of compensation, align pay with achievement of business objectives and with stock performance over a multi-year period, reward our NEOs for outstanding Company performance and create stockholder value over the long term. Our LTIP was redesigned in February 2014 to further those objectives by: (i) establishing a program entirely composed of equity, (ii) introducing a new LTIP vehicle, a Market-Based PRSU, designed to reward eligible participants based on our stock price performance relative to the Philadelphia Semiconductor Sector Index (SOX), or "SOX index," (iii) differentiating the metric in our LTIP from the absolute operational performance metrics used for the annual incentive program, and (iv) extending the performance period for the LTIP from two to three years.

As a result, the LTIP now operates on overlapping three-year cycles, whereas prior to 2014, it operated on overlapping two-

year cycles. In 2014, this change would have left participants with a gap in long-term incentive vesting opportunity in 2016. To ensure that participants received a long-term award that vests in 2016, the committee also awarded in 2014 a one-time gap year award with a two-year performance period, or the "Gap Year Award." The target amount awarded under the Gap Year Award was equal to 50% of the target award opportunity under the regular three-year LTIP award. While the impact on the employee from the extended performance period and the Gap Year Award, assuming performance and target opportunities are the same year after year, was to normalize the received compensation in any year, the accounting impact on the Company from such normalization (visible in "Figure 32. Summary Compensation Table" and "Figure 35. FYE2015 Outstanding Equity Awards" below), was a higher grant-based compensation expense in fiscal year 2014. This is in addition to the continuing impact on the total compensation figures in the Company's "Summary Compensation Table" in fiscal years 2014 and 2015 from the long-term cash awards, which ceased in fiscal year 2015, under the previously designed programs for our performance during the relevant periods.

As shown in the chart below, because each performance period for the Market-Based PRSUs and stock options during fiscal year 2015 covers performance in two or three years, three performance cycles affect compensation during each fiscal year (including the Gap Year Award).

**Figure 23. FY2015 LTIP Programs**



"\$V" Reflects timing of cash payment and/or vesting of equity awards.

- (1) See Figure 26 below for additional information regarding the performance period for each program.
- (2) Gap-Year Awards with cliff vesting of equity awards as in 2014/2016 LTIP but over two-year performance periods are excluded.
- (3) Market-Based PRSUs cliff vest at the end of the performance periods.
- (4) RSUs and Stock Options vest on an annual basis over three years.

Under the current long-term incentive program, at the beginning of each multi-year performance period, target award opportunities (expressed as a U.S. dollar value) and performance metrics are established for the program. Of the total target award opportunity, 50% is awarded in Market-Based Performance Restricted Stock Units, or "Market-Based PRSUs," and the remaining 50% is awarded in a combination of stock options and service-based RSUs with at least 10% of

the award in each of these two vehicles. The specific percentage of service-based RSUs and stock options are reviewed annually to determine whether service-based RSUs or stock options are the more appropriate form for the major part of the award based on criteria such as the current business environment and the potential value to motivate and retain the executives. We consider performance-based RSUs

and stock options as performance-based, but do not classify service-based RSUs as performance-based. This means that if options constitute 10% of the total target award opportunity, the long-term incentive program will be 60% performance-based. If options constitute 40% of the total target award opportunity, the long-term incentive program will be 90% performance-based.

## Equity Vehicles

The equity vehicles used in our 2015/2017 long-term incentive program are the following:

**Figure 24. 2015/2017 LTIP Program Equity Vehicles**

Equity Vehicles	% of Target Award Opportunity	Terms
<b>Market-Based PRSUs</b>	50	<ul style="list-style-type: none"> <li>Awards cliff vest three years from the February 11, 2015 grant date, or "Grant Date," subject to satisfaction of minimal performance requirement and continued employment. Cliff, rather than annual, vesting provides for both retention and for aligning NEOs with longer-term stockholder interests.</li> <li>The performance period for Market-Based PRSUs is three years from the first business day in February (February 2, 2015).</li> <li>The number of shares represented by the Market-Based PRSUs that can be earned over the performance periods is based on our stock price performance compared to the market price performance of the Philadelphia Semiconductor Sector Index (SOX), subject to the below-referenced ceiling. The stock price performance or market price performance is measured using the closing price for the 50 trading days prior to the dates the performance period begins and ends. The target number of shares represented by the Market-Based PRSUs is increased by 2% of target for each 1% that Lam's stock price performance exceeds the market price performance of the SOX index; similarly, the target number of shares represented by the Market-Based PRSUs is decreased by 2% of target for each 1% that Lam's stock price performance trails the market price performance of the SOX index. The result of the vesting formula is rounded down to the nearest whole number. A table reflecting the potential payouts depending on various comparative results is reflected in Figure 25 below.</li> <li>The final award cannot exceed 150% of target (requiring a percentage change in the Company's stock price performance compared to that of the market price performance of the SOX index equal to or greater than positive 25 percentage points) and can be as little as 0% of target (requiring a percentage change in the Company's stock price performance compared to that of the market price performance of the SOX index equal to or lesser than negative 50 points).</li> <li>The number of Market-Based PRSUs granted was determined by dividing 50% of the target opportunity by the closing price of our common stock on the Grant Date, \$80.60, rounded down to the nearest share.</li> <li>Awards that vest at the end of the performance period are distributed in shares of our common stock.</li> </ul>
<b>Stock Options</b>	10	<ul style="list-style-type: none"> <li>Awards vest one-third on the first, second and third anniversaries of the February 11, 2015 grant date, or "Grant Date," subject to continued employment.</li> <li>The number of stock options granted is determined by dividing 10% of the target opportunity by the closing price of our common stock on the Grant Date, \$80.60, rounded down to the nearest share and multiplying the result by three. The ratio of three options for every RSU is based on a Black Scholes fair value accounting analysis.</li> <li>Awards are exercisable upon vesting.</li> <li>Expiration is on the seventh anniversary of the Grant Date.</li> </ul>
<b>RSUs</b>	40	<ul style="list-style-type: none"> <li>Awards vest one-third on the first, second and third anniversaries of the February 11, 2015 grant date, or "Grant Date," subject to continued employment.</li> <li>The number of RSUs granted is determined by dividing 40% of the target opportunity by the closing price of our common stock on the Grant Date, \$80.60, rounded down to the nearest share.</li> <li>Awards are distributed in shares of our common stock upon vesting.</li> </ul>

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**Figure 25.**  
**Market-Based PRSU Vesting Summary**

% Change in Lam's Stock Price Performance Compared to % Change in SOX Index Market Price Performance	Market-Based PRSUs That Can Be Earned (% of Target) <sup>(1)</sup>
+ 25% or more	150
10%	120
0% (equal to index)	100
- 10%	80
- 25%	50
- 50% or less	0

<sup>(1)</sup> As set forth in the third bullet of the first row of Figure 24, the results of the vesting formula (reflecting the number of Market-Based PRSUs that can be earned) are linearly interpolated between the stated percentages using the described formula.

#### Target Award Opportunity

Under the long-term incentive program, the committee sets a target award opportunity for each participant based on the NEO's position and responsibilities and an assessment of competitive compensation data. The target award opportunities for each participant are expressed in a U.S. dollar value. The target amounts for each NEO under the program cycles affecting fiscal year 2015 are as follows:

**Figure 26. LTIP Target Award Opportunities**

Named Executive Officer	Long-Term Incentive Program	Target Award Opportunity (\$)
Martin B. Anstice	2015/2017 <sup>(1)</sup>	6,750,000
	2014/2016 <sup>(2)</sup>	6,500,000
	2013/2014 <sup>(3)</sup>	5,000,000
Timothy M. Archer	2015/2017 <sup>(1)</sup>	3,500,000
	2014/2016 <sup>(2)</sup>	3,000,000
	2013/2014 <sup>(3)</sup>	3,000,000
Douglas R. Bettinger	2015/2017 <sup>(1)</sup>	2,500,000
	2014/2016 <sup>(2)</sup>	2,500,000
	2013/2014 <sup>(3)</sup>	2,000,000
Richard A. Gottscho	2015/2017 <sup>(1)</sup>	3,000,000
	2014/2016 <sup>(2)</sup>	2,500,000
	2013/2014 <sup>(3)</sup>	2,075,000
Sarah A. O'Dowd	2015/2017 <sup>(1)</sup>	1,300,000
	2014/2016 <sup>(2)</sup>	1,300,000
	2013/2014 <sup>(3)</sup>	1,258,000

<sup>(1)</sup> The three-year performance period for the 2015/2017 LTIP begins on February 2, 2015 and ends on February 1, 2018.

<sup>(2)</sup> The three-year performance period for the 2014/2016 LTIP began on February 18, 2014 and ends on February 17, 2017. The 2014 Gap Year Award (with a performance period beginning on February 18, 2014 and ending on February 17, 2016, and target award opportunities for each participant of 50% of his or her 2014/2016 LTIP target award opportunity) is not included.

<sup>(3)</sup> The 2013/2014 LTIP had a two calendar-year performance period.

#### CY2015 Awards

Calendar year 2015 decisions for the 2015/2017 long-term incentive program. On February 11, 2015, the committee made a grant under the 2015/2017 long-term incentive program, of Market-Based PRSUs, stock options and RSUs on the terms set forth in Figure 24 above with a combined value equal to the NEO's total target award opportunity, as shown in Figure 27 below.

**Figure 27. 2015/2017 LTIP Awards**

Named Executive Officer	Target Award Opportunity (\$)	Market-Based PRSUs Award <sup>(1)</sup> (#)	Stock Options Award (#)	Service-Based RSUs Award (#)
Martin B. Anstice	6,750,000	41,873	25,122	33,498
Timothy M. Archer	3,500,000	21,712	13,026	17,369
Douglas R. Bettinger	2,500,000	15,508	9,303	12,406
Richard A. Gottscho	3,000,000	18,610	11,166	14,888
Sarah A. O'Dowd	1,300,000	8,064	4,836	6,451

<sup>(1)</sup> The number of Market-Based PRSUs awarded is reflected at target. The final number of shares that may be earned will be 0 to 150% of target.

#### 2013/2014 LTIP Payouts

The 2013/2014 LTIP payouts were awarded, and the 2013/2014 grants were made, pursuant to the previous design of the long-term incentive program.

#### Historic LTIP Design

The long-term incentive programs prior to 2014 had two components:

- Cash Incentive Component
- Equity Incentive Component

Of such prior long-term incentive programs, 50% were expressed in performance-based cash awards and the other 50% were awarded in equity. Such programs were designed to be 75% performance-based and 25% service-based (i.e., 50% of the equity component was performance-based and 50% was service-based). The cash incentive component of the programs was entirely performance-based, and the equity incentive component had typically been half performance-based (including stock options) and half service-based. As referenced above, we consider goal-based RSUs and stock options as performance-based, but do not classify service-based RSUs as performance-based.

#### Cash Incentive Component

The cash component of the prior programs was 100% performance-based and was designed to:

- motivate outstanding performance at the corporate levels and to create long-term stockholder value,
- attract and retain top talent, and
- optimize value to employees while maintaining cost-effectiveness to the Company.

The committee set performance metrics under each two-year performance period on an annual basis. Goals against the metrics were set on a six month basis for 2013 and on an annual basis for 2014 to allow the committee to react to changes in the external business environment. When business conditions improved, goals were set to require stronger performance, and when business conditions deteriorated, goals were set to ensure stretch performance under more difficult conditions. We believed this flexibility motivated exceptional performance and delivered stockholder value throughout the applicable fluctuating business cycles we experienced.

Results determined based on performance against the pre-set goals were adjusted to reflect stock price appreciation occurring during the performance period, aligning results under the program with results realized by our stockholders. The adjustment was made quarterly referencing a ratio of (x) the market price of our common stock over a 50-trading-day period to (y) the market price of our common stock over a

200-trading-day period, if the ratio was greater than one. Thus the final payout amount was determined by achievement against the performance goals adjusted by this stock price appreciation metric, and subject to the cap the committee set and any negative discretion the committee chose to exercise.

For each two-year performance period, the awards were subject to cliff vesting and payouts were made following the end of the second year to those participants who remained employed on the award determination date. The cliff vesting, rather than annual vesting, assisted with both retention and aligning NEOs with longer-term stockholder interests.

We believed this program had been effective in achieving pay-for-performance results in the face of high volatility across business cycles (as shown in Figure 28 below); however, as noted above, the compensation committee made the decision to move to a long-term program entirely composed of equity effective with the 2014/2016 LTIP.

**Figure 28. 2013/2014 Long-Term Cash Payouts**

Long-Term Cash Cycle	Average Long-Term Cash Payout as % of Target Award Opportunity	Business Environment
2013/2014	231	<p><b>2014:</b> Strong operating performance supported by stable economic conditions and healthy demand for semiconductor equipment; Company growth in various growing industry technology inflections</p> <p><b>2013:</b> Healthy demand for semiconductor equipment with stable economic conditions and favorable supply demand discipline; delivered on annualized cost savings targets defined in integration plans</p>
2012/2013	109	<p><b>2013:</b> Healthy demand for semiconductor equipment with stable economic conditions and favorable supply demand discipline; delivered on annualized cost savings targets defined in integration plans</p> <p><b>2012:</b> Demand for semiconductor equipment declined slightly year-over-year as global economic conditions remained weak; positive execution against integration objectives</p>
2011/2012	84	<p><b>2012:</b> Demand for semiconductor equipment declined slightly year-over-year as global economic conditions remained weak; positive execution against integration objectives</p> <p><b>2011:</b> Healthy semiconductor demand under weakening economic conditions; business conditions deteriorated in the second half of calendar year 2011</p>

*Payout decisions under the 2013/2014 long-term cash program.* In February 2015, the committee determined payouts for the 2013/2014 performance cycle. The starting price for determination of the stock price appreciation metric for 2013 and 2014 was \$36.93, which was based on a 200-day moving average as of December 21, 2012. The performance metric for both years of the program was non-GAAP operating income as a percentage of revenue. Specific goals against the non-GAAP operating income metric were set in February 2013 for the first half of 2013, in August 2013 for the second half of 2013, and in February 2014 on an annual basis for 2014. During the performance period, the goal was

15% per quarter, reflecting the Company's executive compensation program objective to motivate retention of a long-term, high quality management team under then-prevailing business conditions. Actual quarterly performance of non-GAAP operating income during all eight quarters ranged from 69% to 156% of target. Without regard to stock price appreciation, the resulting payout would have been 124% of target for the entire period. However, the stock price appreciation metric served to increase the payouts to 231% of target. Payouts for the eligible NEOs were awarded at 231% of target, as shown in Figure 29 below.

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**Figure 29.**  
**2013/2014 Long-Term Cash Payouts**

Named Executive Officer	Cash Target Award Opportunity (\$)	Cash Payout (\$)
Martin B. Anstice	2,500,000	5,772,974
Timothy M. Archer	1,500,000	3,463,784
Douglas R. Bettinger	1,000,000	2,309,190
Richard A. Gottscho	1,037,500	2,395,784
Sarah A. O'Dowd	629,000	1,452,480

### Equity Incentive Component

Similar to the current program, the long-term equity incentive component was historically designed to attract and retain top talent, provide competitive levels of compensation and to reward our NEOs for outstanding Company performance and long-term stock price appreciation. Historically, half of the equity award (25% of the total long-term incentive award opportunity) had been performance-based, delivered in either performance-vested RSUs or stock options. The remaining half of the equity award (25% of the total long-term incentive award opportunity) had been delivered through service-vested RSUs. The performance-based equity component of the long-term program was reviewed annually to determine whether performance-based RSUs or stock options were the most appropriate form for the award based on criteria such as the current business environment and the perceived potential value to motivate and retain the NEOs. Awards cliff vested two years after the grant date, depending on continued employment and, in the case of performance-based RSUs, on performance against specified metrics and goals. The cliff vesting, rather than annual vesting, provided for both retention and for aligning NEOs with longer-term stockholder interests.

*Vesting and performance results under the 2013/2014 long-term equity program.* Under the 2013/2014 long-term equity program, the committee made a grant to each NEO with a grant date of February 8, 2013 (other than Mr. Bettinger, who was not then an employee of the Company) of stock options and service-based RSUs with a combined value equal to 50% of the NEO's total target award opportunity. The committee made a comparable grant for Mr. Bettinger effective as of March 11, 2013, the date he joined the Company. The number of shares of our common stock into which the stock options were exercisable, determined based on a Black Scholes value analysis, was three times the number of the RSUs granted. The options had a term of seven years and cliff vested on February 8, 2015, subject to continued employment. To determine the number of RSUs, 50% of the NEO's long-term equity target dollar amount was divided by \$42.61, the closing price of our common stock on February 8, 2013, for all NEOs other than Mr. Bettinger, and \$42.41, the closing price of our common stock on March 11, 2013, for Mr. Bettinger. The number of shares underlying the stock options issued for the

other 50% of the target dollar amount was determined as described above. The RSUs also cliff vested on February 8, 2015, subject to continued employment. On the vest dates, the stock option and service-based RSUs vested due to the passage of time.

**Figure 30.**  
**2013/2014 Long-Term Equity Awards**

Named Executive Officer	Equity Target Award Opportunity (\$)	Service-Based Restricted Stock Units Award (#)	Stock Options Award (#)
Martin B. Anstice	2,500,000	29,335	88,005
Timothy M. Archer	1,500,000	17,601	52,803
Douglas R. Bettinger	1,000,000	11,789	35,367
Richard A. Gottscho	1,037,500	12,174	36,522
Sarah A. O'Dowd	629,000	7,380	22,140

### Employment/Change in Control Arrangements

The Company enters into employment/change in control agreements to help attract and retain our NEOs and believes that these agreements facilitate a smooth transaction and transition planning in connection with change in control events. During the 2015 fiscal year, the Company entered into new employment agreements with Messrs. Anstice, Archer and Bettinger and Dr. Gottscho, and a new change in control agreement with Ms. O'Dowd, because Mr. Anstice's prior agreement terminated in December 2014 and the committee decided to align the terms and dates of all of these agreements. The employment agreements generally provide for designated payments in the event of an involuntary termination of employment, death or disability, as such terms are defined in the applicable agreements. The employment agreements, and also the change in control agreements, generally provide for designated payments in the case of a change in control when coupled with an involuntary termination (i.e., a double trigger is required before payment is made due to a change in control), as such terms are defined in the applicable agreements.

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

### Other Benefits Not Available to All Employees

#### Elective Deferred Compensation Plan

The Company maintains an elective deferred compensation plan that allows eligible employees (including all of the NEOs) to voluntarily defer receipt of all or a portion of base salary and certain incentive compensation payments until a date or dates elected by the participating employee. This allows the

employee to defer taxes on designated compensation amounts. In addition, the Company provides a limited Company contribution to the plan for all eligible employees.

#### *Supplemental Health and Welfare*

We provide certain health and welfare benefits not generally available to other employees, including the payment of premiums for supplemental long-term disability insurance and Company-provided coverage in the amount of \$1 million for both life and accidental death and dismemberment insurance for all NEOs. Until January 1, 2013, the Company also provided an executive medical, dental, and vision reimbursement program that reimbursed NEOs' cost of medical, dental, and vision expenses in excess of the regular employee plans through the end of 2012.

We also provide post-retirement medical and dental insurance coverage for eligible former executive officers under our Retiree Health Plans, subject to certain eligibility requirements. The program was closed to executive officers who joined the Company or became executive officers through

promotion effective on or after January 1, 2013. We have an independent actuarial valuation of post-retirement benefits for eligible NEOs conducted annually in accordance with generally accepted accounting principles. The most recent valuation was conducted in June 2015 and reflected the following retirement benefit obligation for the NEOs:

**Figure 31.**  
**NEO Post-Retirement Benefit Obligations**

Named Executive Officer	As of June 28, 2015 (\$)
Martin B. Anstice	383,000
Timothy M. Archer	431,000
Douglas R. Bettinger <sup>(1)</sup>	—
Richard A. Gottscho	533,000
Sarah A. O'Dowd	439,000

<sup>(1)</sup> Mr. Bettinger was not eligible to participate because he was not an employee of the Company prior to the termination of the program.

## **IV. TAX AND ACCOUNTING CONSIDERATIONS**

### ***Deductibility of Executive Compensation***

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

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

When we design our executive compensation programs, we take into account whether a particular form of compensation will qualify as "performance-based" for purposes of section 162(m).

To facilitate the deductibility of compensation payments under section 162(m), in fiscal year 2004, we initially adopted the Executive Incentive Plan, or "EIP," and obtained stockholder approval for the EIP at that time. We most recently amended this plan (subject to stockholder approval) in fiscal year 2015 and are seeking stockholder approval for the amended plan at

the 2015 annual meeting. Both the AIP and the LTIP are administered under the EIP. The annual program awards and the long-term cash awards to our NEOs generally qualify for deductibility under section 162(m) to the extent practicable.

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

### ***Taxation of "Parachute" Payments***

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

We did not provide any of our executive officers, any director, or any other service provider with a "gross-up" or other

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reimbursement payment for any tax liability that the individual might owe as a result of the application of sections 280G or 4999 during fiscal year 2015, and we have not agreed and are not otherwise obligated to provide any individual with such a “gross-up” or other reimbursement as a result of the application of sections 280G and 4999.

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

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

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

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

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We follow Financial Accounting Standards Board Accounting Standards Codification Topic 718, or “ASC 718,” for accounting for our stock options and other stock-based awards. ASC 718 requires companies to calculate the grant date “fair value” of their stock option grants and other equity awards using a variety of assumptions. This calculation is performed for accounting purposes. ASC 718 also requires companies to recognize the compensation cost of stock option grants and other stock-based awards in their income

statements over the period that an employee is required to render service in exchange for the option or other equity award.

## **Compensation Committee Report**

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

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

### **MEMBERS OF THE COMPENSATION COMMITTEE**

*Youssef A. El-Mansy*

*Christine A. Heckart*

*Grant M. Inman*

*Abhijit Y. Talwalkar (Chair)*

## **Compensation Committee Interlocks and Insider Participation**

None of the compensation committee members has ever been an officer or employee of Lam Research. No interlocking relationship exists as of the date of this proxy statement or existed during fiscal year 2015 between any member of our compensation committee and any member of any other company’s board of directors or compensation committee.

## Executive Compensation Tables

The following tables (Figures 32-37) show compensation information for our named executive officers:

### Figure 32. Summary Compensation Table

Summary Compensation Table								
Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Options Awards (\$) <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(3)</sup>	All Other Compensation (\$) <sup>(4)</sup>	Total (\$)
Martin B. Anstice <i>President and Chief Executive Officer</i>	2015	906,646	—	5,849,027	558,635	3,839,904 <sup>(12)</sup>	10,527	11,164,739
	2014	803,846	—	8,298,569	897,137	4,978,689 <sup>(13)</sup>	30,977	15,009,218
	2013	776,904 <sup>(6)</sup>	—	1,249,964	1,150,947	2,376,731 <sup>(14)</sup>	17,106	5,571,653
Timothy M. Archer <i>Executive Vice President and Chief Operating Officer</i>	2015	604,431	—	3,032,808	289,658	2,114,132 <sup>(15)</sup>	10,543	6,051,572
	2014	580,769	1,000,000 <sup>(7)</sup>	3,830,003	414,012	3,034,681 <sup>(16)</sup>	30,521	8,889,985
	2013	574,313 <sup>(6)</sup>	—	1,999,961 <sup>(10)</sup>	690,568	1,738,388 <sup>(17)</sup>	124,204	5,127,434
Douglas R. Bettinger <i>Executive Vice President and Chief Financial Officer</i> <sup>(5)</sup>	2015	528,692	—	2,166,214	206,870	1,450,547 <sup>(18)</sup>	8,017	4,360,340
	2014	494,231	—	3,191,636	344,994	1,484,487 <sup>(19)</sup>	22,961	5,538,309
	2013	149,231	—	2,499,942 <sup>(11)</sup>	459,159	272,269 <sup>(20)</sup>	2,529	3,383,130
Richard A. Gottscho <i>Executive Vice President, Global Products</i>	2015	528,692	5,867 <sup>(8)</sup>	2,599,550	312,531	1,482,521 <sup>(21)</sup>	9,398	4,938,559
	2014	475,000	—	3,191,636	441,128	2,109,623 <sup>(22)</sup>	23,059	6,240,446
	2013	487,735 <sup>(6)</sup>	500 <sup>(9)</sup>	518,734	613,299	1,098,839 <sup>(23)</sup>	15,786	2,734,893
Sarah A. O'Dowd <i>Senior Vice President, Chief Legal Officer and Secretary</i>	2015	418,077	—	1,126,410	135,357	956,427 <sup>(24)</sup>	7,551	2,643,822
	2014	408,077	—	1,659,629	229,365	1,371,075 <sup>(25)</sup>	26,364	3,694,509
	2013	432,782 <sup>(6)</sup>	—	314,462	371,788	808,050 <sup>(26)</sup>	12,427	1,939,509

<sup>(1)</sup> The amounts shown in this column represent the value of RSU awards, under the LTIP (for fiscal year 2014, this includes the 2014/2016 LTIP award and the Gap Year Award (a one-time award discussed in further detail in the “Long-Term Incentive Program – Design” section above)) except as described in footnotes 10 and 11 below, granted in accordance with ASC 718. However, pursuant to SEC rules, these values are not reduced by an estimate for the probability of forfeiture. The assumptions used to calculate the fair value of the RSUs in fiscal year 2015 are set forth in Note 5 to the Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the fiscal year ended June 28, 2015. For additional details regarding the grants see “Grants of Plan-Based Awards for Fiscal Year 2015” table below.

<sup>(2)</sup> The amounts shown in this column represent the value of the stock option awards granted, under the LTIP (for fiscal year 2014, this includes the 2014/2016 LTIP award and the Gap Year Award (a one-time award discussed in further detail in the “Long-Term Incentive Program – Design” section above)), in accordance with ASC 718. However, pursuant to SEC rules, these values are not reduced by an estimate for the probability of forfeiture. The assumption used to calculate the fair value of stock options in fiscal year 2015 are set forth in Note 5 to the Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the fiscal year ended June 28, 2015. For additional details regarding the grants see “Grants of Plan-Based Awards for Fiscal Year 2015” table below.

<sup>(3)</sup> Includes the long-term cash awards, which ceased in calendar year 2015 (as discussed in further detail in the “Long-Term Incentive Program – Design” section above), under the previously designed long-term incentive programs for our performance during the relevant periods.

<sup>(4)</sup> Please refer to “All Other Compensation Table For Fiscal Year 2015” which immediately follows this table, for additional information.

<sup>(5)</sup> Mr. Bettinger was appointed Executive Vice President and Chief Financial Officer on March 11, 2013.

<sup>(6)</sup> Includes non-recurring, one-time vacation payouts at the end of the program, in which all vice presidents were entitled to accrue paid vacation time, of \$71,615 for Mr. Anstice; \$7,485 for Mr. Archer; \$36,005 for Dr. Gottscho; and \$34,167 for Ms. O'Dowd.

<sup>(7)</sup> Represents a retention bonus pursuant to the terms of his employment agreement (effective June 4, 2012), or “Archer Employment Agreement,” entered into in connection with the acquisition of Novellus.

<sup>(8)</sup> Represents patent awards.

<sup>(9)</sup> Represents a patent award.

<sup>(10)</sup> Represents grants of service-based RSUs: under the 2012/2013 equity portion of the Long-Term Incentive Program, or “LTIP-Equity,” granted August 3, 2012 in accordance with the terms of the *Archer Employment Agreement*; and under the 2013/2014 LTIP-Equity, granted February 8, 2013.

<sup>(11)</sup> Represents a grant of service-based RSUs under the 2013/2014 LTIP-Equity and a new hire grant of service-based RSUs with a dollar value equal to \$2,000,000 in accordance with the terms of his employment agreement.

<sup>(12)</sup> Represents \$1,708,290 earned by and subsequently paid to Mr. Anstice under the calendar year 2014 Annual Incentive Program, or “AIP,” and \$2,131,614 accrued on his behalf for the performance during fiscal year 2015 under the 2013/2014 Long-Term Incentive Program, or “LTIP-Cash.” Mr. Anstice has received the amounts accrued under the 2013/2014 LTIP-Cash.

<sup>(13)</sup> Represents \$1,155,041 earned by and subsequently paid to Mr. Anstice under the calendar year 2013 AIP, \$857,186 accrued on his behalf for the performance during fiscal year 2014 under the 2012/2013 LTIP-Cash, and \$2,966,462 accrued on his behalf for the performance during fiscal year 2014 under the 2013/2014 LTIP-Cash. Mr. Anstice has received the amount accrued under the 2012/2013 and 2013/2014 LTIP-Cash programs.

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- (14) Represents \$771,640 earned by and subsequently paid to Mr. Anstice under the calendar year 2012 AIP, \$183,446 accrued on his behalf for the performance during fiscal year 2013 under the 2011/2012 LTIP-Cash, \$740,974 accrued on his behalf for the performance during fiscal year 2013 under the 2012/2013 LTIP-Cash, and \$680,671 accrued on his behalf for the performance during fiscal year 2013 under the 2013/2014 LTIP-Cash. Mr. Anstice has received the amounts accrued under the 2011/2012, 2012/2013, and 2013/2014 LTIP-Cash programs.
- (15) Represents \$835,164 earned by and subsequently paid to Mr. Archer under the calendar year 2014 AIP and \$1,278,968 accrued on his behalf for the performance during fiscal year 2015 under the 2013/2014 LTIP-Cash. Mr. Archer has received the amount accrued under the 2013/2014 LTIP-Cash.
- (16) Represents \$642,528 earned by and subsequently paid to Mr. Archer under the calendar year 2013 AIP, \$612,276 accrued on his behalf for the performance during fiscal year 2014 under the 2012/2013 LTIP-Cash, and \$1,779,877 accrued on his behalf for the performance during fiscal year 2014 under the 2013/2014 LTIP-Cash. Mr. Archer has received the amount accrued under the 2012/2013 and 2013/2014 LTIP-Cash programs.
- (17) Represents \$263,492 earned by and subsequently paid to Mr. Archer under the calendar year 2012 AIP, \$360,804 earned by and subsequently paid to him in accordance with the terms of his employment agreement under the 2012 Novellus Executive Bonus Program for performance during the second half of fiscal year 2012, \$705,689 accrued on his behalf for the performance during fiscal year 2013 under the 2012/2013 LTIP-Cash, and \$408,403 accrued on his behalf for the performance during fiscal year 2013 under the 2013/2014 LTIP-Cash. Mr. Archer has received the amount accrued under the 2012/2013 and 2013/2014 LTIP-Cash programs.
- (18) Represents \$597,902 earned by and subsequently paid to Mr. Bettinger under the calendar year 2014 AIP and \$852,645 accrued on his behalf for the performance during fiscal year 2015 under the 2013/2014 LTIP-Cash. Mr. Bettinger has received the amount accrued under the 2013/2014 LTIP-Cash.
- (19) Represents \$297,902 earned by and subsequently paid to Mr. Bettinger under the calendar year 2013 AIP, and \$1,186,585 accrued on his behalf for the performance during fiscal year 2014 under the 2013/2014 LTIP-Cash. Mr. Bettinger has received the amounts accrued under the 2013/2014 LTIP-Cash program.
- (20) Represents \$272,269 accrued on Mr. Bettinger's behalf for the performance during fiscal year 2013 under the 2013/2014 LTIP-Cash. Mr. Bettinger has received the amounts accrued under the 2013/2014 LTIP-Cash program.
- (21) Represents \$597,902 earned by and subsequently paid to Dr. Gottscho under the calendar year 2014 AIP and \$884,619 accrued on his behalf for the performance during fiscal year 2015 under the 2013/2014 LTIP-Cash. Dr. Gottscho has received the amount accrued under the 2013/2014 LTIP-Cash.
- (22) Represents \$486,685 earned by and subsequently paid to Dr. Gottscho under the calendar year 2013 AIP, \$391,857 accrued on his behalf for the performance during fiscal year 2014 under the 2012/2013 LTIP-Cash, and \$1,231,082 accrued on his behalf for the performance during fiscal year 2014 under the 2013/2014 LTIP-Cash. Dr. Gottscho has received the amount accrued under the 2012/2013 and 2013/2014 LTIP-Cash programs.
- (23) Represents \$355,332 earned by and subsequently paid to Dr. Gottscho under the calendar year 2012 AIP, \$122,297 accrued on his behalf for the performance during fiscal year 2013 under the 2011/2012 LTIP-Cash, \$338,731 accrued on his behalf for the performance during fiscal year 2013 under the 2012/2013 LTIP-Cash, and \$282,479 accrued on his behalf for the performance during fiscal year 2013 under the 2013/2014 LTIP-Cash. Dr. Gottscho has received the amounts accrued under the 2011/2012, 2012/2013, and 2013/2014 LTIP-Cash programs.
- (24) Represents \$420,113 earned by and subsequently paid to Ms. O'Dowd under the calendar year 2014 AIP and \$536,314 accrued on her behalf for the performance during fiscal year 2015 under the 2013/2014 LTIP-Cash. Ms. O'Dowd has received the amount accrued under the 2013/2014 LTIP-Cash.
- (25) Represents \$318,575 earned by and subsequently paid to Ms. O'Dowd under the calendar year 2013 AIP, \$306,138 accrued on her behalf for the performance during fiscal year 2014 under the 2012/2013 LTIP-Cash, and \$746,362 accrued on her behalf for the performance during fiscal year 2014 under the 2013/2014 LTIP-Cash. Ms. O'Dowd has received the amount accrued under the 2012/2013 and 2013/2014 LTIP-Cash programs.
- (26) Represents \$276,615 earned by and subsequently paid to Ms. O'Dowd under the calendar year 2012 AIP, \$95,545 accrued on her behalf for the performance during fiscal year 2013 under the 2011/2012 LTIP-Cash, \$264,633 accrued on her behalf for the performance during fiscal year 2013 under the 2012/2013 LTIP-Cash, and \$171,257 accrued on her behalf for the performance during fiscal year 2013 under the 2013/2014 LTIP-Cash. Ms. O'Dowd has received the amounts accrued under the 2011/2012, 2012/2013, and 2013/2014 LTIP-Cash programs.

**Figure 33. FY2015 All Other Compensation Table**

All Other Compensation Table for Fiscal Year 2015						
	Company Matching Contribution to the Company's Section 401(k) Plan (\$)	Company Paid Long-Term Disability Insurance Premiums <sup>(1)</sup> (\$)	Company Paid Life Insurance Premiums <sup>(2)</sup> (\$)	Company Contribution to the Elective Deferred Compensation Plan (\$)	Total (\$)	
Martin B. Anstice	8,027	—	—	2,500	10,527	
Timothy M. Archer	8,043	—	—	2,500	10,543	
Douglas R. Bettinger	8,017	—	—	—	8,017	
Richard A. Gottscho	8,224	1,174	—	—	9,398	
Sarah A. O'Dowd	4,823	—	228	2,500	7,551	

(1) Represents the portion of supplemental long-term disability insurance premiums paid by Lam.

- (2) Represents the portion of life insurance premiums paid by Lam in excess of the non-discriminatory life insurance benefits provided to all Company employees.

**Figure 34. FY2015 Grants of Plan-Based Awards**

Grants of Plan-Based Awards for Fiscal Year 2015											
Name	Award Type	Grant Date	Approved Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/sh)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(3)</sup>
				Target (\$) <sup>(1)</sup>	Maximum (\$) <sup>(1)</sup>	Target (#) <sup>(2)</sup>	Maximum (#) <sup>(2)</sup>				
Martin B. Anstice	Annual Incentive Program	N/A	2/10/15	1,390,500	3,128,625	—	—	—	—	—	—
	LTIP-Equity										
	Market-Based PRSUs	2/11/15	2/10/15	—	—	41,873 <sup>(4)</sup>	62,809 <sup>(4)</sup>	—	—	—	3,219,196
	Service-Based RSUs	2/11/15	2/10/15	—	—	—	—	33,498 <sup>(5)</sup>	—	—	2,629,830
	Stock Options	2/11/15	2/10/15	—	—	—	—	—	25,122 <sup>(6)</sup>	80.60	558,635
Timothy M. Archer	Annual Incentive Program	N/A	2/9/15	679,800	1,529,550	—	—	—	—	—	—
	LTIP-Equity										
	Market-Based PRSUs	2/11/15	2/9/15	—	—	21,712 <sup>(4)</sup>	32,568 <sup>(4)</sup>	—	—	—	1,669,219
	Service-Based RSUs	2/11/15	2/9/15	—	—	—	—	17,369 <sup>(5)</sup>	—	—	1,363,590
	Stock Options	2/11/15	2/9/15	—	—	—	—	—	13,026 <sup>(6)</sup>	80.60	289,658
Douglas R. Bettinger	Annual Incentive Program	N/A	2/9/15	486,000	1,093,500	—	—	—	—	—	—
	LTIP-Equity										
	Market-Based PRSUs	2/11/15	2/9/15	—	—	15,508 <sup>(4)</sup>	23,262 <sup>(4)</sup>	—	—	—	1,192,255
	Service-Based RSUs	2/11/15	2/9/15	—	—	—	—	12,406 <sup>(5)</sup>	—	—	973,959
	Stock Options	2/11/15	2/9/15	—	—	—	—	—	9,303 <sup>(6)</sup>	80.60	206,870
Richard A. Gottscho	Annual Incentive Program	N/A	2/9/15	486,000	1,093,500	—	—	—	—	—	—
	LTIP-Equity										
	Market-Based PRSUs	2/11/15	2/9/15	—	—	18,610 <sup>(4)</sup>	27,915 <sup>(4)</sup>	—	—	—	1,430,737
	Service-Based RSUs	2/11/15	2/9/15	—	—	—	—	14,888 <sup>(5)</sup>	—	—	1,168,813
	Stock Options	2/11/15	2/9/15	—	—	—	—	—	11,166 <sup>(6)</sup>	80.60	312,531
Sarah A. O'Dowd	Annual Incentive Program	N/A	2/9/15	342,000	769,500	—	—	—	—	—	—
	LTIP-Equity										
	Market-Based PRSUs	2/11/15	2/9/15	—	—	8,064 <sup>(4)</sup>	12,096 <sup>(4)</sup>	—	—	—	619,960
	Service-Based RSUs	2/11/15	2/9/15	—	—	—	—	6,451 <sup>(5)</sup>	—	—	506,449
	Stock Options	2/11/15	2/9/15	—	—	—	—	—	4,836 <sup>(6)</sup>	80.60	135,357

- (1) The AIP target and maximum estimated future payouts reflected in this table were calculated using the base salary approved in February 2015, effective as of April 2015.
- (2) The amounts reported in the Estimated Future Payouts Under Equity Incentive Plan Awards columns represent the target and maximum number (150% of target) of Market-Based PRSUs that may be paid out to the NEOs on the terms described in the "Executive Compensation and Other Information – Compensation Discussion and Analysis" above.
- (3) The amounts shown in this column represent the value of service-based and market-based performance RSU and stock option awards granted during fiscal year 2015 in accordance with ASC 718. However, pursuant to SEC rules, these values are not reduced by an estimate for the probability of forfeiture. The assumptions used to calculate the fair value of the service-based or market-based performance RSU in fiscal year 2015 are set forth in Note 5 to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2015.
- (4) The Market-Based PRSUs vest on February 11, 2018, subject to continued employment.
- (5) The service-based RSUs vest 33.3% on February 11, 2016, 33.3% on February 11, 2017 and 33.3% on February 11, 2018, subject to continued employment.
- (6) Represents stock options with a seven-year term, of which 33.3% vest on February 11, 2016, 33.3% vest on February 11, 2017 and 33.3% vest on February 11, 2018, subject to continued employment.

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**Figure 35. FYE2015 Outstanding Equity Awards**

Outstanding Equity Awards at 2015 Fiscal Year-End									
Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(1)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(1)</sup>	
Martin B. Anstice							41,873 <sup>(2)</sup>	3,469,597	
		25,122 <sup>(3)</sup>	80.60	2/11/22					
					33,498 <sup>(4)</sup>	2,775,644			
							62,789 <sup>(5)</sup>	5,202,697	
		25,114 <sup>(6)</sup>	51.76	2/18/21	33,488 <sup>(7)</sup>	2,774,816			
							31,394 <sup>(8)</sup>	2,601,307	
Timothy M. Archer		18,834 <sup>(9)</sup>	51.76	2/18/21					
					25,115 <sup>(10)</sup>	2,081,029			
							21,712 <sup>(2)</sup>	1,799,056	
		13,026 <sup>(3)</sup>	80.60	2/11/22					
					17,369 <sup>(4)</sup>	1,439,195			
		5,795 <sup>(6)</sup>	11,590 <sup>(6)</sup>	51.76	2/18/21			28,979 <sup>(5)</sup>	2,401,200
					15,456 <sup>(7)</sup>	1,280,684			
			8,691 <sup>(9)</sup>	51.76	2/18/21			14,489 <sup>(8)</sup>	1,200,559
Douglas R. Bettinger					11,591 <sup>(10)</sup>	960,430			
		52,803 <sup>(11)</sup>	42.61	2/8/20					
		40,500 <sup>(12)</sup>	29.34	12/16/20					
							15,508 <sup>(2)</sup>	1,284,993	
		9,303 <sup>(3)</sup>	80.60	2/11/22					
					12,406 <sup>(4)</sup>	1,027,961			
Richard A. Gottscho							24,149 <sup>(5)</sup>	2,000,986	
		9,658 <sup>(6)</sup>	51.76	2/18/21	12,880 <sup>(7)</sup>	1,067,237			
							12,074 <sup>(8)</sup>	1,000,452	
		7,242 <sup>(9)</sup>	51.76	2/18/21					
					9,659 <sup>(10)</sup>	800,345			
		36,522 <sup>(11)</sup>	42.61	2/8/20					
Sarah A. O'Dowd							8,064 <sup>(2)</sup>	668,183	
		4,836 <sup>(3)</sup>	80.60	2/11/22					
					6,451 <sup>(4)</sup>	534,530			
		2,511 <sup>(6)</sup>	5,022 <sup>(6)</sup>	51.76	2/18/21			12,557 <sup>(5)</sup>	1,040,473
					6,698 <sup>(7)</sup>	554,996			
		3,765 <sup>(9)</sup>	51.76	2/18/21			6,278 <sup>(8)</sup>	520,195	
					5,023 <sup>(10)</sup>	416,206			
	22,140 <sup>(11)</sup>	42.61	2/8/20						

- (1) Calculated by multiplying the number of unvested shares by \$82.86, the closing price per share of our common stock on June 26, 2015.
- (2) Market-Based PRSUs are shown at their target amount. The actual conversion of the Market-Based PRSUs into shares of Lam common stock following the conclusion of the three-year performance period will range from 0% to 150% of that target amount, depending upon Lam's stock price performance compared to the market price performance of the SOX index over the applicable three-year performance period. The Market-Based PRSUs were granted on February 11, 2015. On February 11, 2018, the Market-Based PRSUs will vest, subject to continued employment.
- (3) Stock options were granted on February 11, 2015. On February 11, 2016, February 11, 2017 and February 11, 2018, 33.3% of the stock options will become exercisable, subject to continued employment.
- (4) RSUs were granted on February 11, 2015. On February 11, 2016, February 11, 2017 and February 11, 2018, the RSUs (33.3% on each date) will vest, subject to continued employment.
- (5) Market-Based PRSUs are shown at their target amount. The actual conversion of the Market-Based PRSUs into shares of Lam common stock following the conclusion of the three-year performance period will range from 0% to 150% of that target amount, depending upon Lam's stock price performance compared to the market price performance of the SOX index over the applicable three-year performance period. The Market-Based PRSUs were granted on February 18, 2014. On February 18, 2017, the Market-Based PRSUs will vest, subject to continued employment.
- (6) Stock options were granted on February 18, 2014. As of the 2015 fiscal year-end, 33% of the stock options granted on February 18, 2014 had become exercisable. On February 18, 2016 and February 18, 2017, the remaining unvested stock options (33% on each date) will become exercisable, subject to continued employment.
- (7) RSUs were granted on February 18, 2014. As of the 2015 fiscal year-end, 33.3% of the RSUs granted on February 18, 2014 had vested. On February 18, 2016 and February 18, 2017, the remaining RSUs (33.3% on each date) will vest, subject to continued employment.
- (8) Market-Based PRSUs are shown at their target amount. The actual conversion of the Market-Based PRSUs into shares of Lam common stock following the conclusion of the two-year performance period will range from 0% to 150% of that target amount, depending upon Lam's stock price performance compared to the market price performance of the SOX index over the applicable two-year performance period. The Market-Based PRSUs were granted as part of the Gap Year Award on February 18, 2014. On February 18, 2016, the Market-Based PRSUs will vest, subject to continued employment.
- (9) Stock options were granted as part of the Gap Year Award on February 18, 2014. On February 18, 2016, 100% of the stock options will become exercisable, subject to continued employment.
- (10) RSUs were granted as part of the Gap Year Award on February 18, 2014. On February 18, 2016, 100% of the RSUs will vest, subject to continued employment.
- (11) Stock options were granted on February 8, 2013. As of the 2015 fiscal year-end, 100% of the stock options granted on February 8, 2013 had become exercisable.
- (12) Stock options were granted on December 16, 2010. As of the 2015 fiscal year-end, 100% of the stock options granted on December 16, 2010 had become exercisable.

## Figure 36. FY2015 Option Exercises and Stock Vested

Option Exercises and Stock Vested for Fiscal Year 2015 <sup>(1)</sup>				
Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Martin B. Anstice	100,562	3,830,053	46,078	3,663,823
Timothy M. Archer	—	—	25,328	2,008,338
Douglas R. Bettinger	40,196	1,536,950	18,228	1,448,675
Richard A. Gottscho	—	—	18,613	1,478,759
Sarah A. O'Dowd	—	—	10,728	850,941

- (1) The table shows all stock options exercised and the value realized upon exercise, and all stock awards vested and the value realized upon vesting, by the NEOs during fiscal year 2015, which ended on June 28, 2015.

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## Figure 37. FY2015 Non-Qualified Deferred Compensation

Non-Qualified Deferred Compensation for Fiscal Year 2015				
Name	Executive Contributions in FY 2015 (\$) <sup>(1)</sup>	Registrant Contributions in FY 2015 (\$) <sup>(2)</sup>	Aggregate Earnings in FY 2015 (\$) <sup>(3)</sup>	Aggregate Balance at FYE 2015 (\$) <sup>(4)</sup>
Martin B. Anstice	85,925	2,500	115,966	4,618,543
Timothy M. Archer	2,091,607	2,500	123,128	3,642,690
Douglas R. Bettinger	1,403,284	—	38,401	1,544,768
Richard A. Gottscho	—	—	100,969	1,901,479
Sarah A. O'Dowd	2,079,073	2,500	165,249	5,977,247

- (1) The entire amount of each executive's contributions in fiscal year 2015 is reported in each respective NEO's compensation in our fiscal year 2015 "Summary Compensation Table."
- (2) Represents the amount that Lam credited to the Elective Deferred Compensation Plan, the "EDCP," which is 3% of Executive Salary Contribution during calendar year 2014, to a maximum benefit of \$2,500. These amounts are included in the "Summary Compensation Table" and "All Other Compensation Table For Fiscal Year 2015."
- (3) The NEOs did not receive above-market or preferential earnings in fiscal year 2015.
- (4) The fiscal year-end balance includes \$4,414,152 for Mr. Anstice, \$1,425,455 for Mr. Archer, \$103,083 for Mr. Bettinger, \$1,800,510 for Dr. Gottscho, and \$3,730,425 for Ms. O'Dowd that were previously reported in our "Summary Compensation Table" in prior years' proxy statements.

### Potential Payments upon Termination or Change in Control

The following is a summary of the employment agreements of our named executive officers.

#### Executive Employment Agreements

**Martin B. Anstice.** The Company and Mr. Anstice entered into an employment agreement, or the "new agreement," effective January 1, 2015, for a term ending on December 31, 2017, subject to the right of the Company or Mr. Anstice, under certain circumstances, to terminate the new agreement prior to such time. This new agreement replaced the prior agreement, effective January 1, 2012 and amended on January 30, 2014, whose term ended on December 31, 2014.

Under the terms of the new agreement, Mr. Anstice receives a base salary, which is reviewed annually and potentially adjusted. It was initially set at the beginning of the term of the agreement at \$900,000. Mr. Anstice is also entitled to participate in any short-term or long-term variable compensation programs offered by the Company to its executive officers generally, subject to the applicable terms and conditions of those programs and the approval of the independent members of the board, and to participate in the Company's Elective Deferred Compensation Plan. Mr. Anstice receives other benefits, such as health insurance, paid time off (as his schedule permits), and benefits under other plans and programs generally applicable to executive officers of the Company.

If an Involuntary Termination (as defined in Mr. Anstice's new agreement) of Mr. Anstice's employment occurs, other than in connection with a Change in Control (as defined in

Mr. Anstice's new agreement), Mr. Anstice will be entitled to: (1) a lump-sum cash payment equal to 18 months of his then-current base salary, plus an amount equal to the average of the last five annual payments made to Mr. Anstice under the short term variable compensation or any predecessor or successor programs (the "Short Term Program," and such average, the "Five Year Average Amount"), plus an amount equal to the pro-rata amount he would have earned under the Short Term Program for the calendar year in which his employment is terminated had his employment continued until the end of such calendar year, such pro-rata portion to be calculated based on the performance results achieved under the Short Term program and the number of full months elapsed prior to the termination date; (2) payment of any amounts accrued as of the date of termination under any long-term, cash-based variable-compensation programs of the Company (the "Long Term Cash Programs"); (3) certain medical benefits; (4) a cash payment equal to a product of (x) a pro rata portion (based on time of service as of the date of termination) of the unvested Market-Based PRSU/ performance-based RSU awards granted to Mr. Anstice as adjusted for the Company's performance (calculated as set forth in the award agreements) over the time of service and (y) the closing stock price on the date of termination; and (5) vesting, as of the date of termination, of a pro rata portion of the unvested stock option or RSU awards that are not performance based granted to Mr. Anstice at least 12 months prior to the termination date.

If a Change in Control of the Company (as defined in Mr. Anstice's new agreement) occurs during the period of Mr. Anstice's employment, and if there is an Involuntary Termination of Mr. Anstice's employment either in contemplation of or within the 18 months following the Change

in Control, Mr. Anstice will be entitled to: a lump-sum cash payment equal to 24 months of Mr. Anstice's then-current base salary, plus an amount equal to two times the Five Year Average Amount, plus an additional amount equal to a pro rata amount (based on the number of full months worked during the calendar year during which the termination occurs) of the Five Year Average Amount; certain medical benefits; conversion of any Market-Based PRSUs/performance-based RSUs outstanding as of the Change in Control into a cash award payable at time of termination equal to the sum of: (x) a pro rata portion (based on time of service as of the date of termination) of the unvested Market-Based PRSU/performance-based RSU awards granted to Mr. Anstice as adjusted for the Company's performance (calculated as set forth in the award agreements) over the time of service and (y) the remainder of the pro-rata portion of unvested Market-Based PRSU/performance-based RSU awards at target; vesting, as of the date of termination, of the unvested stock option or RSU awards that are not performance-based granted to Mr. Anstice prior to the Change in Control; and payment of any amounts accrued as of the Change in Control under the Long Term Cash Programs, plus an amount equal to the remaining target amount under the Long Term Cash Programs.

If Mr. Anstice's employment is terminated due to disability or in the event of his death, Mr. Anstice (or his estate) will be entitled to: (1) the pro rata amount he would have earned under the Short Term Program for the calendar year in which his employment is terminated had his employment continued until the end of such calendar year, such pro rata portion to be calculated based on the performance results achieved under the Short Term Program and the number of full months elapsed prior to the termination date; (2) payment of any amounts accrued as of the date of termination under the Long Term Cash Programs; (3) certain medical benefits; (4) vesting, as of the date of termination, of 50% of the unvested stock option, and RSU awards, which are not performance based, granted to Mr. Anstice prior to the date of termination (or a pro rata amount, based on period of service, if greater than 50%); and (5) vesting, as of the date of termination, of 50% of the Market-Based PRSU/performance-based RSU awards (or a pro rata amount, based on period of service, if greater than 50%) as adjusted for the Company's performance during the service period (in either case) granted to Mr. Anstice prior to the date of termination.

If Mr. Anstice voluntarily resigns, he will be entitled to no additional benefits (except as he may be eligible for under the Company's Retiree Health Plans); stock options, RSUs and Market-Based PRSUs/performance-based RSUs will cease to vest on the termination date; and stock options will be cancelled unless they are exercised within 90 days after the termination date. All RSUs and Market-Based PRSUs/performance-based RSUs will be cancelled on the termination date.

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

*Timothy M. Archer.* The Company and Mr. Archer entered into a new employment agreement, or the "new agreement," effective January 1, 2015, for a term ending on December 31, 2017, subject to the right of the Company or Mr. Archer, under certain circumstances, to terminate the new agreement prior to such time. The new agreement replaced the employment agreement between the parties that was effective on June 4, 2012 and amended on January 30, 2014. The terms of Mr. Archer's new agreement are substantively similar to those of Mr. Anstice's new agreement, except that Mr. Archer's initial base salary at the beginning of the term of the new agreement was set at \$600,000.

The severance terms of Mr. Archer's new agreement are generally similar to those of Mr. Anstice's new agreement, provided that (1) Mr. Archer will receive 12-months base salary instead of 18 months in the event of his Involuntary Termination; and (2) instead of a payment of the Five Year Average Amount, he will receive a payment of 50% of the Five Year Average Amount. The Change in Control terms of Mr. Archer's new agreement are generally similar to those of Mr. Anstice's new agreement, provided that Mr. Archer will receive 18-months base salary instead of 24 months in the event of his Involuntary Termination.

*Douglas R. Bettinger.* The Company and Mr. Bettinger entered into a new employment agreement, or the "new agreement," with a term commencing on January 1, 2015 and ending on December 31, 2017, subject to the right of the Company or Mr. Bettinger, under certain circumstances, to terminate the agreement prior to such time. The new agreement replaced the employment agreement between the parties that was effective on March 11, 2013 and amended on January 30, 2014. The terms of Mr. Bettinger's new agreement are substantively similar to those of Mr. Archer's new agreement, with the following material differences: Mr. Bettinger's initial base salary at the beginning of the term of the new agreement was set at \$525,000 and his new agreement references the previously received special bonus grant of RSUs with a dollar value (as of such date) equal to \$2,000,000 that vested in equal tranches on a quarterly basis over the year following the effective date of the immediately preceding agreement.

Had Mr. Bettinger's employment terminated due to a "voluntary resignation" (as defined in his new agreement) prior to March 11, 2015, he would have been required to repay to

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the Company (in cash or vested RSU shares) a pro rata portion of the shares granted as part of the special bonus.

The severance terms of Mr. Bettinger's new agreement are generally similar to those of Mr. Archer's new agreement, provided that in computing the Five Year Average Amount any partial year short-term plan payments in any year shall be annualized, and if employed for less than five years, then computed based on such fewer number of years. The Change in Control terms of Mr. Bettinger's new agreement are generally similar to those of Mr. Archer's new agreement.

*Richard A. Gottscho.* The Company and Dr. Gottscho entered into an employment agreement, or the "new agreement," effective January 1, 2015, for a term ending on December 31, 2017, subject to the right of the Company or Dr. Gottscho, under certain circumstances, to terminate the new agreement prior to such time. The new agreement replaced the employment agreement between the parties that was effective on July 18, 2012 and amended on January 30, 2014. The terms of Dr. Gottscho's new agreement are substantively similar to those of Mr. Archer's new agreement with the following material difference: under Dr. Gottscho's new agreement, his initial base salary at the beginning of the term of the new agreement was set at \$525,000. The severance and Change in Control terms of Dr. Gottscho's new agreement are also generally similar to those of Mr. Archer's new agreement.

#### **Other Executive Agreements**

The Company entered into a new change in control agreement with Ms. O'Dowd effective January 1, 2015, or the "new agreement," for a term ending on December 31, 2017, subject to the right of the Company or Ms. O'Dowd, under certain circumstances, to terminate the agreement prior to such time. The new agreement replaced a change in control agreement between the parties that was effective on July 18, 2012 and amended on January 30, 2014. The new agreement provides that if a change in control (as defined in Ms. O'Dowd's new agreement) of the Company occurs during the period of her employment under the new agreement, and there is an Involuntary Termination (as defined in her new agreement) of her employment, Ms. O'Dowd will be entitled to

payments and benefits substantively similar to those contained in the change in control provisions of Mr. Archer's new agreement.

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

#### **Equity Plans**

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

#### **Potential Payments to Named Executive Officers upon Termination or Change in Control**

The tables below summarize the potential payments to our NEOs, assuming a change in control of the Company as of the end of fiscal year 2015. These amounts are calculated assuming that the employment termination or change in control occurs on the last day of fiscal year 2015, June 28, 2015. The closing price per share of our common stock on June 26, 2015, which was the last trading day of fiscal year 2015, was \$82.86. The short-term incentive program pro-rata amounts are calculated by multiplying the applicable pro-rata percentage by the target. Actual performance will not be known until the end of calendar year 2015.

## Figures 38 – 42.

### Potential Payments to NEOs upon Termination or Change in Control as of FYE2015

Potential Payments to Mr. Anstice upon Termination or Change in Control as of June 28, 2015					
	Voluntary Termination (\$)	Involuntary Termination			Change in Control (\$)
		Disability or Death (\$)	For Cause (\$)	Not for Cause (\$)	
<b>Compensation</b>					
Severance	—	—	—	1,390,500	1,854,000
Short-term Incentive (5-year average)	—	—	—	957,076	1,914,152
Short-term Incentive (pro rata)	—	695,250	—	695,250	478,538
Stock Options (Unvested and Accelerated)	—	809,402	—	737,623	1,423,559
Service-Based Restricted Stock Units (Unvested and Accelerated)	—	4,162,583	—	2,620,604	7,631,489
Performance-Based Restricted Stock Units (Unvested and Accelerated)	—	7,311,359	—	5,823,381	12,549,624
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit	—	24,071	—	24,071	24,071
<b>Total</b>	<b>—</b>	<b>13,002,665</b>	<b>—</b>	<b>12,248,505</b>	<b>25,875,433</b>

Potential Payments to Mr. Archer upon Termination or Change in Control as of June 28, 2015					
	Voluntary Termination (\$)	Involuntary Termination			Change in Control (\$)
		Disability or Death (\$)	For Cause (\$)	Not for Cause (\$)	
<b>Compensation</b>					
Severance	—	—	—	618,000	927,000
Short-term Incentive (5-year average)	—	—	—	358,402	1,075,207
Short-term Incentive (pro rata)	—	339,900	—	339,900	358,402
Stock Options (Unvested and Accelerated)	—	375,137	—	340,393	660,178
Service-Based Restricted Stock Units (Unvested and Accelerated)	—	2,000,227	—	1,209,480	3,680,310
Performance-Based Restricted Stock Units (Unvested and Accelerated)	—	3,462,184	—	2,709,593	5,986,965
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit	—	36,107	—	36,107	36,107
<b>Total</b>	<b>—</b>	<b>6,213,555</b>	<b>—</b>	<b>5,611,875</b>	<b>12,724,169</b>

Potential Payments to Mr. Bettinger upon Termination or Change in Control as of June 28, 2015					
	Voluntary Termination (\$)	Involuntary Termination			Change in Control (\$)
		Disability or Death (\$)	For Cause (\$)	Not for Cause (\$)	
<b>Compensation</b>					
Severance	—	—	—	540,000	810,000
Short-term Incentive (5-year average)	—	—	—	234,468	703,404
Short-term Incentive (pro rata)	—	243,000	—	243,000	234,468
Stock Options (Unvested and Accelerated)	—	310,845	—	283,646	546,615
Service-Based Restricted Stock Units (Unvested and Accelerated)	—	1,581,162	—	1,007,891	2,895,543
Performance-Based Restricted Stock Units (Unvested and Accelerated)	—	2,790,018	—	2,234,195	4,777,883
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit	—	24,071	—	24,071	24,071
<b>Total</b>	<b>—</b>	<b>4,949,096</b>	<b>—</b>	<b>4,567,271</b>	<b>9,991,984</b>

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**Potential Payments to Dr. Gottscho upon Termination or Change in Control as of June 28, 2015**

	Voluntary Termination (\$)	Involuntary Termination			Change in Control (\$)
		Disability or Death (\$)	For Cause (\$)	Not for Cause (\$)	
<b>Compensation</b>					
Severance	—	—	—	540,000	810,000
Short-term Incentive (5-year average)	—	—	—	228,710	686,129
Short-term Incentive (pro rata)	—	243,000	—	243,000	228,710
Stock Options (Unvested and Accelerated)	—	312,950	—	283,646	550,825
Service-Based Restricted Stock Units (Unvested and Accelerated)	—	1,683,991	—	1,007,891	3,101,201
Performance-Based Restricted Stock Units (Unvested and Accelerated)	—	2,904,140	—	2,262,725	5,031,316
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit	533,000	533,000	533,000	533,000	533,000
<b>Total</b>	<b>533,000</b>	<b>5,677,081</b>	<b>533,000</b>	<b>5,098,972</b>	<b>10,941,181</b>

**Potential Payments to Ms. O'Dowd upon Termination or Change in Control as of June 28, 2015**

	Voluntary Termination (\$)	Involuntary Termination			Change in Control (\$)
		Disability or Death (\$)	For Cause (\$)	Not for Cause (\$)	
<b>Compensation</b>					
Severance	—	—	—	—	641,250
Short-term Incentive (5-year average)	—	—	—	—	527,901
Short-term Incentive (pro rata)	—	—	—	—	175,967
Stock Options (Unvested and Accelerated)	—	—	—	—	284,205
Service-Based Restricted Stock Units (Unvested and Accelerated)	—	—	—	—	1,505,732
Performance-Based Restricted Stock Units (Unvested and Accelerated)	—	—	—	—	2,484,392
<b>Benefits and Perquisites</b>					
Health Benefit Continuation/COBRA Benefit	439,000	439,000	439,000	439,000	439,000
<b>Total</b>	<b>439,000</b>	<b>439,000</b>	<b>439,000</b>	<b>439,000</b>	<b>6,058,447</b>

## Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of June 28, 2015, regarding securities authorized for issuance under the Company's equity compensation plans. The equity compensation plans of the Company include the 1999 Employee Stock Purchase Plan, the 2007 Stock Incentive Plan, and the 2011 Stock Incentive Plan, each as amended and as may be amended.

### Figure 43. FYE2015 Securities Authorized for Issuance under Equity Compensation Plans

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights <sup>(1)</sup> (\$ (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,453,709 <sup>(2)</sup>	51.92	8,719,394 <sup>(3)</sup>
Equity compensation plans not approved by security holders	2,336,211 <sup>(4)</sup>	28.19	5,287,479 <sup>(5)</sup>
<b>Total</b>	<b>5,789,920</b>	<b>37.44</b>	<b>14,006,873</b>

<sup>(1)</sup> Does not include RSUs.

<sup>(2)</sup> Includes 3,453,709 shares issuable upon RSU vesting or stock option exercises under the Company's 2007 Stock Incentive Plan, as amended, or the "2007 Plan." The 2007 Plan was adopted by the board in August 2006, approved by Lam's stockholders in November 2006, and



amended by the board in November 2006 and May 2013. The term of the 2007 Plan is 10 years from the last date of any approval, amendment, or restatement of the Plan by the Company's stockholders. The 2007 Plan reserves for issuance up to 15,000,000 shares of the Company's common stock.

- (3) Includes 1,284,871 shares available for future issuance under the 2007 Plan and 7,434,523 shares available for future issuance under the 1999 Employee Stock Purchase Plan, as amended, or the "1999 ESPP." The 1999 ESPP was adopted by the board in September 1998, approved by Lam's stockholders in November 1998, amended by stockholder approval in November 2003, and most recently amended by the board in November 2012. The term of the 1999 ESPP is 20 years from its effective date of September 30, 1998, unless otherwise terminated or extended in accordance with its terms.
- (4) Includes 2,336,211 shares issuable upon RSU vesting or stock option exercises under the Company's 2011 Stock Incentive Plan, as amended, or the "2011 Plan." As part of the acquisition of Novellus, Lam assumed the Novellus Systems, Inc. 2011 Stock Incentive Plan. The 2011 Plan was approved by Novellus shareholders before the merger but has not been approved by a separate vote of Lam stockholders. The 2011 Plan was amended by the board in July 2012. The term of the 2011 Plan is 10 years from its effective date of May 10, 2011, unless otherwise terminated or extended in accordance with its terms.
- (5) Includes 5,287,479 shares available for future issuance under the 2011 Plan.

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## Audit Committee Report

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

In this context and in connection with the audited financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2015, the audit committee took the following actions:

- Reviewed and discussed the audited financial statements with Company management.
- Discussed with EY the matters required to be discussed by applicable auditing standards of the Public Company Accounting Oversight Board, or the "PCAOB."

- Reviewed the written disclosures and the letter from EY, required by Rule 3526 of the PCAOB, "*Communication with Audit Committees Concerning Independence*," and discussed with EY its independence.
- Based on the foregoing reviews and discussions, recommended to the board of directors that the audited financial statements be included in the Company's 2015 Annual Report on Form 10-K for the fiscal year ended June 28, 2015 for filing with the SEC.

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

### MEMBERS OF THE AUDIT COMMITTEE

*Eric K. Brandt (Chair)*  
*Michael R. Cannon*  
*Catherine P. Lego*  
*William R. Spivey*

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## Relationship with Independent Registered Public Accounting Firm

EY has audited the Company's consolidated financial statements since the Company's inception.

### Annual Evaluation and Selection of Independent Registered Public Accounting Firm

The audit committee annually evaluates the performance of the Company's independent registered public accounting firm, including the senior audit engagement team, and determines whether to reengage the current accounting firm or consider other audit firms. Factors considered by the audit committee in deciding whether to retain EY include: (i) EY's global capabilities to handle the breadth and complexity of the

Company's global operations; (ii) EY's technical expertise and knowledge of the Company's industry and global operations; (iii) the quality and candor of EY's communications with the audit committee and management; (iv) EY's independence; (v) the quality and efficiency of the services provided by EY, including input from management on EY's performance and how effectively EY demonstrated its independent judgment, objectivity and professional skepticism; (vi) the appropriateness of EY's fees; and (vii) EY's tenure as our independent auditor, including the benefits of that tenure, and the controls and processes in place (such as rotation of key partners) that help ensure EY's continued independence in the face of such tenure.

## Figure 44. Independent Registered Public Accounting Firm Evaluation and Selection Highlights

### Independence Controls

**Audit Committee Oversight** – Oversight includes regular private sessions with EY, discussion with EY about the scope of its audit and business imperatives, a comprehensive annual evaluation when determining whether to engage EY, and direct involvement by the audit committee and its chair in the selection of the new lead assurance engagement partner and new global coordinating partner in connection with the mandated rotation of these positions.

**Limits on Non-Audit Services** – The audit committee preapproves audit and permissible non-audit services provided by EY in accordance with its pre-approval policy.

**EY's Internal Independence Process** – EY conducts periodic internal reviews of its audit and other work, assesses the adequacy of partners and other personnel working on the Company's account and rotates the lead assurance engagement partner, the global coordinating partner, and other partners on the engagement consistent with independence and rotation requirements established by the PCAOB and SEC.

**Strong Regulatory Framework** – EY, as an independent registered public accounting firm, is subject to PCAOB inspections, "Big 4" peer reviews and PCAOB and SEC oversight.

### Benefits of Longer Tenure

**Enhanced Audit Quality** – EY's significant institutional knowledge and deep expertise of the Company's semiconductor equipment industry and global business, accounting policies and practices and internal control over financial reporting enhances audit quality.

**Competitive Fees** – Because of EY's familiarity with the Company and the industry, audit and other fees are competitive with peer independent registered public accounting firms.

**Avoid Costs Associated with New Auditor** – Bringing on a new independent registered public accounting firm would be costly and require a significant time commitment, which could lead to management distractions.

## Fees Billed by EY

The table below shows the fees billed by EY for audit and other services provided to the Company in fiscal years 2015 and 2014.

### Figure 45. FY2015/2014 EY Fees Billed

	Fiscal Year 2015 (\$)	Fiscal Year 2014 (\$)
Audit Fees <sup>(1)</sup>	4,736,008	4,584,117
Audit-Related Fees <sup>(2)</sup>	—	8,975
Tax Fees <sup>(3)</sup>	82,634	119,055
All Other Fees <sup>(4)</sup>	—	1,535
<b>TOTAL</b>	<b>4,818,642</b>	<b>4,713,682</b>

<sup>(1)</sup> Audit Fees represent fees for professional services provided in connection with the audits of annual financial statements. Audit Fees also include reviews of quarterly financial statements, audit services related to other statutory or regulatory filings or engagements, and fees related to EY's audit of the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act.

<sup>(2)</sup> Audit-Related Fees represent fees for assurance and related services that are reasonably related to the audit or review of the Company's financial statements and are not reported above under "Audit Fees" and include fees related to services provided to support the Company's disposition of the Peter Wolters industrial applications group.

<sup>(3)</sup> Tax Fees represent fees for professional services for tax compliance and review services related to foreign tax compliance and assistance with tax audits and appeals.

<sup>(4)</sup> All other fees represent subscription fees to EY's accounting research service.

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The audit committee reviewed summaries of the services provided by EY and the related fees during fiscal year 2015 and has determined that the provision of non-audit services was compatible with maintaining the independence of EY as the Company's independent registered public accounting firm. The audit committee approved 100% of the services and related fee amounts for services provided by EY during fiscal year 2015.

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

It is the responsibility of the audit committee to approve, in accordance with Sections 10A(h) and (i) of the Exchange Act and the rules and regulations of the SEC, all professional services, to be provided to us by our independent registered public accounting firm, provided that the audit committee shall not approve any non-audit services proscribed by

Section 10A(g) of the Exchange Act in the absence of an applicable exemption.

It is our policy that the audit committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm, consistent with the criteria set forth in the audit committee charter and applicable laws and regulations. The committee has delegated to the chair of the committee the authority to pre-approve such services, provided that the chair shall report any decisions to pre-approve such services to the full audit committee at its next regular meeting. These services may include audit services, audit-related services, tax services, and other services. Our independent registered public accounting firm and our management are required to periodically report to the audit committee regarding the extent of services provided by our independent registered public accounting firm pursuant to any such pre-approval.

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## **Certain Relationships and Related Party Transactions**

No family relationships exist as of the date of this proxy statement or existed during fiscal year 2015 among any of our directors and executive officers. There was only one related party transaction that occurred during fiscal year 2015. The son of Stephen G. Newberry, the chairman of our board of directors, Ryan Newberry, is employed by the Company as a manager of security. In fiscal year 2015, the aggregate

compensation paid to Ryan Newberry, including salary, incentive compensation, the grant date value of long-term incentive awards and the value of any other health and benefits contributed to or paid for by the Company, was less than \$150,000. The aggregate compensation is similar to the aggregate compensation of other employees holding equivalent positions.

# Voting Proposals

## Proposal No. 1: Election of Directors

A board of nine directors is to be elected at the 2015 annual meeting. In general, the nine nominees who receive the highest number of “for” votes will be elected. However, any nominee who fails to receive affirmative approval from holders of a majority of the votes cast in such nominee’s election at the annual meeting, either by proxy or in person, will not be elected to the board, even if he or she is among the top nine nominees in total “for” votes. This requirement reflects the majority vote provisions implemented by the Company in November 2009. The term of office of each person elected as a director will be for the ensuing year, and until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Unless otherwise instructed, the Proxy Holders (as defined in “*Voting and Meeting Information – Information Concerning Solicitation and Voting – Voting Instructions*” below) will vote the proxies received by them for the nine nominees named below, each of whom is currently a director of the Company. The proxies cannot be voted for more than nine nominees, whether or not there are additional nominees. If any nominee of the Company should decline or be unable to serve as a director as of the time of the annual meeting, and unless otherwise instructed, the proxies will be voted for any substitute nominee designated by the present board of directors to fill the vacancy. The Company is not aware of any nominee who will be unable, or will decline, to serve as a director.

The below nominees for reelection have been nominated for election to the board of directors in accordance with the

criteria and procedures discussed above in “*Governance Matters – Corporate Governance*.” The nine directors to be elected is fewer than the eleven members of the board as of the date of mailing. As previously disclosed in a current report on Form 8-K, Mr. Inman and Dr. Spivey are retiring from the board effective as of November 2, 2015, just before the date of the 2015 annual meeting. The board has reduced the size of the board to nine, effective immediately prior to the time of the 2015 annual meeting.

In addition to the below biographical information concerning each board nominee’s specific experience, attributes, positions and qualifications and age as of September 1, 2015, we believe that each of our nominees, while serving as a director and/or officer of the Company, has devoted adequate time to the board of directors and performed his or her duties with critical attributes such as honesty, integrity, wisdom, and an adherence to high ethical standards. Each nominee has demonstrated strong business acumen, an ability to make independent analytical inquiries, to understand the Company’s business environment and to exercise sound judgment, as well as a commitment to the Company and its core values. We believe the nominees have an appropriate diversity and interplay of viewpoints, skills, backgrounds and experiences that will encourage a robust decision-making process for the board.

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

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## 2015 Nominees for Director



### **Martin B. Anstice**

Director since 2012

Age 48

Martin B. Anstice has served as the Company's President and Chief Executive Officer since January 2012. Mr. Anstice joined the Company in April 2001 as Senior Director, Operations Controller; was promoted to the position of Managing Director and Corporate Controller in May 2002; and was promoted to Group Vice President, Chief Financial Officer, and Chief Accounting Officer in June 2004. He was appointed Executive Vice President and Chief Operating Officer in September 2008 and President in December 2010. Prior to joining the Company, Mr. Anstice held various finance positions from 1988 to 1999 at Raychem Corporation, a global materials science company. Subsequent to the acquisition of Raychem by Tyco International, a global provider of engineered electronic components, network solutions and wireless systems, he assumed responsibilities supporting mergers and acquisition activities of Tyco Electronics. Mr. Anstice is an Associate member of the Institute of Chartered Management Accountants in the United Kingdom.

The board has concluded that Mr. Anstice is qualified to serve as a director of the Company because of his knowledge of and experience in the semiconductor equipment industry and markets including as current President, Chief Executive Officer and a director of the Company, past President and Chief Operating Officer, and past Chief Financial Officer of the Company; his international business experience; and his strong leadership and experience as a corporate executive.



### **Eric K. Brandt**

Director since 2010

Age 53

Eric K. Brandt serves as Executive Vice President and Chief Financial Officer of Broadcom Corporation, a global supplier of semiconductor devices, a role in which he has served since joining Broadcom in March 2007. From September 2005 to March 2007, Mr. Brandt served as President and Chief Executive Officer of Avanir Pharmaceuticals, Inc., a pharmaceutical company. Prior to Avanir Pharmaceuticals, Mr. Brandt was Executive Vice President-Finance and Technical Operations and Chief Financial Officer of Allergan Inc., a global specialty pharmaceutical company, where he also held a number of other senior positions following his arrival there in May 1999.

Mr. Brandt has served as a member of the board of directors and a member of the committee responsible for compensation of Dentsply International, Inc., a manufacturer and distributor of dental product solutions, since 2004.

He previously served on the board of directors of Vertex Pharmaceuticals, Inc., a pharmaceutical company, where he was chair of the audit committee, from 2002 to 2009; and Avanir Pharmaceuticals from 2005 to 2007.

Mr. Brandt received a B.S. degree in chemical engineering from the Massachusetts Institute of Technology and an M.B.A. degree from the Harvard Graduate School of Business.

The board has concluded that Mr. Brandt is qualified to serve as a director of the Company because of his financial expertise including as an active chief financial officer of a publicly traded company that is a customer of our customers; his knowledge of and experience in the semiconductor industry; his mergers and acquisitions experience; and his board/governance experience on other boards of directors of public companies, including as an audit committee chair.

#### **Board Committees:**

- **Audit**
  - *Chair since 2014*
  - *Member since 2010*

#### **Public company directorships in last five years:**

- Dentsply International Inc.



## Michael R. Cannon

Director since 2011

Age 62

### Board Committees:

- **Audit**
  - *Member since 2011*
- **Compensation**
  - *Member: 2011-2013*
- **Nominating and Governance**
  - *Member since 2011*

### Public company directorships in last five years:

- Adobe Systems Inc.
- Seagate Technology Public Limited
- Dialog Semiconductor
- Elster Group SE (former)

Michael R. Cannon is the General Partner of MRC & LBC Partners, LLC, a private management consulting company. From February 2007 until his retirement in January 2009, Mr. Cannon served as President of Global Operations of Dell Inc., a computer systems manufacturer and services provider; and from January 2009 to January 2011, he served as a consultant to Dell. Prior to joining Dell, he was President and Chief Executive Officer of Solectron Corporation, an electronic manufacturing services company, from January 2003 to February 2007. From July 1996 to January 2003, Mr. Cannon served as President and Chief Executive Officer of Maxtor Corporation, a disk drive and storage systems manufacturer. Prior to joining Maxtor, Mr. Cannon held senior management positions at International Business Machines Corp. (IBM), a global services, software and systems company.

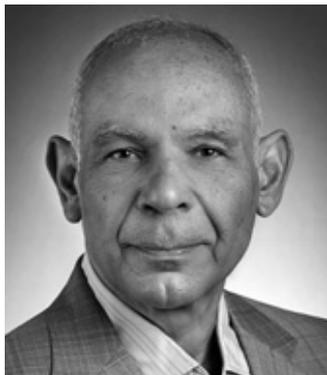
Mr. Cannon has served as a member of the board of directors of Adobe Systems Inc., a diversified software company, since 2003, where he has been a member of the audit committee and was the chair of the compensation committee; Seagate Technology Public Limited, a disk drive and storage solutions company, since February 2011, where he has been a chair of the nominations and governance committee and a member of the audit committee and was a member of the finance committee; and Dialog Semiconductor, a mixed signal integrated circuits company, since February 2013, where he has been a chair of the remuneration committee and a member of the nomination committee.

Mr. Cannon previously served on the board of directors of Elster Group SE, a precision metering and smart grid technology company, from October 2010 until the company was acquired in August 2012; Solectron Corporation, an electronic manufacturing services company, from January 2003 to January 2007; and Maxtor Corporation, a disk drive and storage solutions company, from July 1996 until Seagate acquired Maxtor in May 2006.

He studied mechanical engineering at Michigan State University and completed the Advanced Management Program at the Harvard Graduate School of Business.

The board has concluded that Mr. Cannon is qualified to serve as a director of the Company because of his extensive board and governance experience as a director on other public company boards, including on an audit committee, compensation or remuneration committees and nominations and governance committees; his experience in leadership roles at a public corporation that is a customer of our customers; his 20 years of international business experience; his experience with marketing, mergers and acquisitions and related transactions; and his industry knowledge.

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### **Youssef A. El-Mansy**

Director since 2012

Age 70

#### **Board Committees:**

- **Compensation**
  - *Member since 2012*

#### **Public company directorships in last five years:**

- Novellus Systems, Inc. (former)

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Youssef A. El-Mansy is the retired Vice President, Director of Logic Technology Development, at Intel Corporation, a leading producer of microchips, computing and communications products, where he was responsible for managing technology development, the processor design center for Intel's Technology and Manufacturing Group and two wafer manufacturing facilities. Dr. El-Mansy joined Intel in 1979 and led microprocessor technology development at Intel for 20 years.

Dr. El-Mansy previously served on the board of directors of Novellus Systems, Inc., from April 2004 until the company was acquired by Lam Research in June 2012; and Zygo Corporation, an optical system designer and manufacturer, from July 2004 to June 2009.

Dr. El-Mansy is a Fellow of the Institute of Electrical and Electronics Engineers, or "IEEE," and has been awarded the 2004 IEEE Frederik Philips Award for leadership in developing state-of-the-art logic technologies and the 2013 IEEE Robert Noyce Medal for establishing a highly effective Research-Development-Manufacturing methodology that led to industry leadership in logic technology.

Dr. El-Mansy holds B.S. and M.S. degrees in electronics and communications from Alexandria University in Egypt and a Ph.D. degree in electronics from Carleton University in Ottawa, Canada.

The board has concluded that Dr. El-Mansy is qualified to serve as a director of the Company because of his more than 30 years of industry knowledge and experience as an executive focused on the manufacturing of technological devices and components for a major semiconductor manufacturer; his understanding of the Company's technologies; and his past board/governance experience at other public companies as a director and member and chair of a compensation committee.



### **Christine A. Heckart**

Director since 2011

Age 49

#### **Board Committees:**

- **Audit**
  - *Recently appointed member*
- **Compensation**
  - *Member: 2011 – recent appointment to audit committee*

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Christine A. Heckart has served as the Chief Marketing Officer of Brocade Communications Systems, Inc., a networking solution company, since March 2014. Immediately prior to joining Brocade, she was the Executive Vice President, Strategy, Marketing, People and Systems since May 2013 and the Chief Marketing Officer from July 2012 until May 2013 at ServiceSource International Inc., a service revenue management company. From February 2010 to May 2012, she was the Chief Marketing Officer at NetApp, Inc., a data storage and management solutions provider. Ms. Heckart served as General Manager for the TV, video and music business of Microsoft Corporation, a developer of software, services, and hardware, from 2005 to 2010; and led global marketing at Juniper Networks, Inc., a provider of network infrastructure solutions, from 2002 to 2005. She was President at TeleChoice, Inc., a consulting firm specializing in business and marketing strategies, from 1995 to 2002.

Ms. Heckart holds a B.A. degree in economics from the University of Colorado at Boulder.

The board has concluded that Ms. Heckart is qualified to serve as a director of the Company because of her experience in leadership roles at public corporations; her knowledge of the electronics industry, including networks and big data; and her strong marketing background and experience.



## Catherine P. Lego

Director since 2006

Age 58

### Board Committees:

- **Audit**

- *Chair: 2009 – 2014*
- *Member: 2006 – recent appointment to compensation committee*

- **Compensation**

- *Recently appointed chair*

- **Nominating and Governance**

- *Member since 2014*

### Public company directorships in last five years:

- SanDisk Corporation
- Fairchild Semiconductor International Inc.

Catherine P. Lego is the founder of Lego Ventures LLC, a consulting services firm for early stage electronics companies, formed in 1992. From December 1999 to December 2009, she was the General Partner of The Photonics Fund, LLP, an early stage venture capital investment firm focused on investing in components, modules and systems companies for the fiber optics telecommunications market, which she founded. Ms. Lego was a general partner at Oak Investment Partners, a venture capital firm, from 1981 to 1992. Prior to Oak Investment Partners, she practiced as a Certified Public Accountant with Coopers & Lybrand, an accounting firm.

Ms. Lego has served as a member of the board of directors and as the chair of the audit committee of SanDisk Corporation, a global developer of flash memory storage solutions, since May 2004 and as a director from 1989 to 2002. She has also served as a member of the board of directors, the nominating and governance committee and the compensation committee of Fairchild Semiconductor International Inc., a fabricator of power management devices, since August 2013.

She previously served on the board of directors of the following public companies: ETEC Corporation, a producer of electron beam lithography tools, from 1991 through 1997; Uniphase Corporation (presently JDS Uniphase Corporation), a designer and manufacturer of components and modules for the fiber optic based telecommunications industry and laser-based semiconductor defect examination and analysis equipment, from 1994 until 1999, when it merged with JDS Fitel; Zitel Corporation, an information technology company, from 1995 to 2000; WJ Communications, Inc., a broadband communications company, from October 2004 to May 2008; and Micro Linear Corporation, a fabless analog semiconductor company. Ms. Lego also served as a member of the board of directors of other technology companies that are privately-held.

She received a B.A. degree in economics and biology from Williams College and an M.S. degree in accounting from the New York University Leonard N. Stern School of Business.

The board has concluded that Ms. Lego is qualified to serve as a director of the Company because of her experience on our board; her substantial accounting and finance expertise; her knowledge of the electronics and semiconductor industries and the perspective of companies that are customers of our customers; her experience with mergers and acquisitions; and her board and governance experience on other boards, including her current service as chairman of an audit committee and member of a nominating and governance committee.

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## **Stephen G. Newberry**

Chairman of the Board

Director since 2005

Age 61

### **Public company directorships in last five years:**

- Splunk Inc.
- Nanometrics Incorporated (former)
- Amkor Technology, Inc. (former)

Stephen G. Newberry has served as the Chairman of the Company's board since November 2012. He served as the Company's Vice Chairman from December 2010 to November 2012, Chief Executive Officer from June 2005 to January 2012 and President from July 1998 to December 2010. Mr. Newberry joined the Company in August 1997 as Executive Vice President, a role in which he served until July 1998, and Chief Operating Officer, a role in which he served until June 2005. Prior to joining the Company, Mr. Newberry held various executive positions at Applied Materials, Inc. during his 17-year tenure there, including as Group Vice President of Global Operations and Planning.

Mr. Newberry has also served as a member of the board of directors of Splunk Inc., a software platform company for real-time operational intelligence, since January 2013, where he chairs the compensation committee.

Mr. Newberry served on the board of directors of Nanometrics Incorporated, a provider of process control metrology and inspection systems from May 2011 to May 2015, where he served as a chair of the compensation committee and member of the nominating and governance committee; Amkor Technology, Inc., a provider of outsourced semiconductor packaging assembly and test services, from March 2009 to May 2011, where he served as a member of the compensation committee; Nextest Systems Corporation, a developer of automated test equipment systems for the semiconductor industry, from 2000 to 2008, where he served as a member of the audit, compensation and nominating and corporate governance committees; and Semiconductor Equipment and Materials International, or "SEMI," a global semiconductor equipment trade association, from July 2004 to July 2014.

Mr. Newberry received a B.S. degree in ocean engineering from the U.S. Naval Academy and graduated from the Program for Management Development at the Harvard Graduate School of Business.

The board has concluded that Mr. Newberry is qualified to serve as a director of the Company because of his 30 years' experience in the semiconductor equipment industry; his comprehensive understanding of the Company and its products, markets, and strategies gained through his role as an executive of our Company, including as our former Chief Executive Officer; his marketing experience; his previous role, including as a director, at SEMI, our industry's leading trade association; his public company board and governance experience, including on the audit committee, compensation committees and nominating and governance committees of other companies; and his strong business and operations leadership and expertise.



**Krishna C. Saraswat**

Director since 2012  
Age 68

**Board Committees:**

- **Nominating and Governance**
  - *Member: 2012 – 2014*

**Public company directorships in last five years:**

- Novellus Systems, Inc. (former)

Krishna C. Saraswat has served as the Rickey/Nielsen Professor in the School of Engineering of Stanford University since 2004. He has also served as a Professor of Electrical Engineering and a Professor of Material Science and Engineering at Stanford University since 1983.

Dr. Saraswat previously served on the board of directors of Novellus Systems, Inc. from February 2011 until the company was acquired by Lam Research in June 2012.

Dr. Saraswat, an IEEE Life Fellow, received a B.E. degree in electronics from the Birla Institute of Technology and Science in Pilani, India, and M.S. and Ph.D. degrees in electrical engineering, respectively, from Stanford University. At Stanford University, he has been engaged in research on new and innovative materials, structures, and process technology of silicon, germanium and III-V devices and interconnects for VLSI, nanoelectronics and solar cells.

The board has concluded that Dr. Saraswat is qualified to serve as a director of the Company because of his diverse and extensive experience in semiconductor research and development and knowledge of materials, structures and process technology directly related to our industry; his experience as a professor studying and teaching electrical engineering in those areas; his strong academic credentials, including his recognition as a recipient of numerous awards and his publication of more than 650 technical papers; and his past experience as a director of Novellus.



**Abhijit Y. Talwalkar**

Lead Independent Director  
Director since 2011  
Age 51

**Board Committees:**

- **Compensation**
  - *Chair: 2012 – recent appointment as chair of nominating and governance committee and lead independent director*
  - *Member since 2011*
- **Nominating and Governance**
  - *Recently appointed chair*

**Public company directorships in last five years:**

- LSI Corporation (former)

Abhijit Y. Talwalkar is the former President and Chief Executive Officer of LSI Corporation, a leading provider of silicon, systems and software technologies for the storage and networking markets, a position he held from May 2005 until the completion of LSI's merger with Avago Technologies in May 2014. From 1993 to 2005, Mr. Talwalkar was employed by Intel Corporation, the largest semiconductor manufacturer in the industry. At Intel, he held a number of senior management positions, including as Corporate Vice President and Co-General Manager of the Digital Enterprise Group, which was comprised of Intel's business client, server, storage and communications business, and as Vice President and General Manager for the Intel Enterprise Platform Group, where he focused on developing, marketing, and supporting Intel business strategies for enterprise computing. Prior to joining Intel, Mr. Talwalkar held senior engineering and marketing positions at Sequent Computer Systems, a multiprocessing computer systems design and manufacturer that later became a part of IBM; Bipolar Integrated Technology, Inc., a VLSI bipolar semiconductor company; and Lattice Semiconductor Inc., a service driven developer of programmable design solutions widely used in semiconductor components.

Mr. Talwalkar previously served as a member of the board of directors of LSI from May 2005 to May 2014 and the U.S. Semiconductor Industry Association, a semiconductor industry trade association from May 2005 to May 2014. He was additionally a member of the U.S. delegation for World Semiconductor Council proceedings.

He has a B.S. degree in electrical engineering from Oregon State University.

The board has concluded that Mr. Talwalkar is qualified to serve as a director of the Company because of his experience in the semiconductor industry, including as the former chief executive officer of a semiconductor company and his previous role in the semiconductor industry's trade association; his business and operations leadership roles at other semiconductor companies that include a customer of ours; and his mergers and acquisitions and marketing experience.

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## Proposal No. 2: Advisory Vote to Approve the Compensation of Our Named Executive Officers, or “Say on Pay”

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

We believe that our compensation philosophy has allowed us to attract, retain, and motivate qualified executive officers who have contributed to our success. For more information regarding the compensation of our named executive officers, our compensation philosophy, our 2014 Say on Pay results and Company response, we encourage you to read the section of this proxy statement entitled “*Compensation Matters – Executive Compensation and Other Information – Compensation Discussion and Analysis*,” the compensation tables, and the narrative following the compensation tables for a more detailed discussion of our compensation policies and practices.

We are asking for stockholder approval, on an advisory or non-binding basis, of the compensation of our named executive officers, as disclosed in accordance with SEC rules (including section 14A of the Exchange Act) in the “*Compensation Discussion and Analysis*” section, the compensation tables and any related narrative disclosure included in this proxy statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the policies and practices described in this proxy statement.

We provide for annual advisory votes to approve the compensation of our named executive officers. Unless modified, the next advisory vote to approve the compensation of our named executive officers will be at the 2016 annual meeting.

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

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL, ON AN ADVISORY OR NON-BINDING BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.**

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## Proposal No. 3: Approval of the Lam 2004 Executive Incentive Plan, as Amended and Restated

The Lam 2004 Executive Incentive Plan, or the “EIP,” provides for performance-based incentive compensation which is payable to selected members of the Company’s senior management if the Company achieves specified corporate, financial or other business goals. We currently operate two incentive compensation programs, the Annual Incentive Program, or “AIP,” and the Long-Term Incentive Program, “LTIP,” under the EIP. The AIP and LTIP are described above under the “*Compensation Matters – Executive Compensation and Other Information – Compensation Discussion and Analysis*.”

### Why We Believe You Should Vote for Proposal No. 3

We believe it is in the best interests of the Company and its stockholders for the Company to have a stockholder-approved bonus plan such as the EIP that allows the Company both to provide members of senior management with a strong incentive to meet or exceed specified financial and business goals and to potentially be able to deduct the full amounts paid under the plan for U.S. federal corporate income tax purposes. Without stockholder approval, however, Section 162(m) could

limit the amount the Company may deduct as compensation paid to certain executive officers.

On November 5, 2014 and on August 25, 2015, the compensation committee amended and restated the Lam 2004 Executive Incentive Plan (as so amended and restated, or the “Revised EIP”). The compensation committee also recommended to the board and the board approved that the Revised EIP be resubmitted for approval by our stockholders at the 2015 stockholders’ meeting to meet the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, or the “Code.” One of the requirements of “performance-based compensation” for purposes of Section 162(m) of the Code, or “Section 162(m),” is that the compensation be paid pursuant to a plan that has been approved by the company’s stockholders, and that the plan be re-approved by the company’s stockholders no later than the first stockholders meeting that occurs in the fifth year following the year in which stockholders previously approved the material terms of the plan. We are consequently now requesting stockholder approval of the Revised EIP, the amended share grant limit and the amended and unrevised material

terms of the performance goals as set forth in the Revised EIP for purposes of Section 162(m).

If the Revised EIP is approved by stockholders, the Revised EIP will be effective upon stockholder approval.

## Background

**General Information.** The EIP was initially adopted by Lam's stockholders in November 2003 and became effective for periods beginning on or after December 29, 2003. In accordance with Section 162(m), our stockholders have approved the terms of the EIP every five years, with the latest approval in November 2010.

When we operate more than one compensation program at a time under the Revised EIP, as we currently do with the AIP and the LTIP, the criteria and the aggregate cash payable to any individual in a given twelve-month period under all programs operated under the Revised EIP must not exceed the applicable plan limits.

## Description of the Amendments

The compensation committee amended the EIP in 2014 and 2015. The amendments revised the business criteria that may be established as performance goals for participants in the Revised EIP and conformed the limit on the number of shares that can be granted under the Revised EIP to the limits in the 2015 Lam Stock Incentive Plan. Revising the business criteria was performed to provide the Company with additional flexibility in determining the criteria used for awards under the Revised EIP.

## Summary of the 2004 Executive Incentive Plan, As Amended and Restated

The following is a summary of the Revised EIP and is qualified in its entirety by reference to the full text of the Revised EIP, which is attached to this proxy statement as [Appendix A](#).

**Administration.** The compensation committee administers the Revised EIP. The compensation committee is composed solely of at least two "outside directors" as defined under Section 162(m).

**Eligible Employees.** All members of senior management of the Company and its affiliates are eligible to be selected for participation. For purposes of the Revised EIP, senior management is defined as any officers who are subject to Section 16(a) of the Securities Exchange Act or who are designated as eligible by the compensation committee. As of September 8, 2015, nine members of senior management are eligible to participate in the Revised EIP.

**Maximum Potential Incentive Compensation Awards.** Cash awards paid to any one participant under the Revised EIP in respect of performance goals for any twelve-month

measurement period shall not exceed \$15,000,000; provided however that (a) in the event a measurement period of longer or shorter duration than twelve-months, this limit will be increased or decreased, respectively, on a proportionate basis; and (b) receipt by a participant of payment until a later period of an award amount earned with respect to a measurement period, either through elective deferral by the participant or a deferral included as part of the award structure, shall not affect application of the above cash limit to the participant during the later period.

Stock awards or restricted stock unit awards granted to any one participant in any one fiscal year (which may vest over multiple years) under the Revised EIP shall not exceed 600,000 shares of the Company's common stock. Any stock awards or restricted stock unit awards may be made from and with the terms permitted under any stock option, equity incentive or similar plan of the Company.

**Performance Goals.** Payment under the Revised EIP will be based on the Company's attainment of performance goals based on one or more of the business criteria listed below. These goals may be designated either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit, affiliate or business segment, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, peer index or fund, in each case as specified by the compensation committee in the award and may include actual, growth, or performance-to-target for:

- (i) cash flow, including free cash flow and operating cash flow;
- (ii) earnings (including revenue; gross margin; operating profit; earnings before interest, taxes and depreciation; earnings before interest and taxes; earnings before taxes; net earnings; and special or extraordinary items) or earnings per share;
- (iii) stock or market price;
- (iv) return on equity or average shareholders' equity;
- (v) total stockholder value or return;
- (vi) return on capital;
- (vii) return on assets or net assets;
- (viii) return on investment or invested capital;
- (ix) return on sales;
- (x) income, net income, operating income, net operating income, net operating profit, controllable profits, pre-tax profit or operating margin (with or without regard to amortization/impairment of goodwill);
- (xi) market share or applications won;
- (xii) operational performance, including orders, backlog, deferred revenues, revenue per employee, overhead, days sales outstanding, inventory turns, or other expense levels;
- (xiii) minimum cash balances,
- (xiv) asset turns;
- (xv) product or technological developments;
- (xvi) customer satisfaction management by objectives;
- (xvii) individual management by objectives;
- (xviii) economic value added; and
- (xix) strategic plan development and implementation (including individually designed goals and objectives that are consistent with the

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participant's specific duties and responsibilities and that are designed to improve the organizational performance of the Company, an affiliate, or a specific business unit thereof and that are consistent with and derived from the strategic operating plan of the Company, an affiliate or any of their business units for the applicable performance period).

The compensation committee may measure, as applicable, any of the above on a pro forma, GAAP or non-GAAP basis and may, without limitation, appropriately adjust any evaluation of performance under the business criteria to exclude any of the following events that occurs during a performance period: (A) asset write-downs; (B) litigation or claim judgments or settlements; (C) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (D) accruals for reorganization and restructuring programs; and (E) any extraordinary non-recurring items as described in FASB Accounting Standards Codification 225 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year.

**Establishment of Award.** The compensation committee will establish the terms of the awards including (i) the length of the measurement period; (ii) the specific business criterion or criteria, or combination thereof, that will be used; (iii) the specific performance targets that will be used for the selected business criterion or criteria; (iv) any special adjustments that will be applied in calculating whether the performance targets have been met to factor out extraordinary items; (v) the formula for calculating compensation eligible for payment under the Revised EIP in relation to the performance targets; (vi) the eligible employees who will participate in the Revised EIP for that measurement period; and (vii) if applicable, the target amounts for each participant for the measurement period.

The compensation committee will establish these criteria in writing no later than 90 days after the start of each measurement period, on or before 25% of the measurement period has elapsed, and while the outcome is substantially uncertain.

**Determination of Attainment of Performance Goals.** The compensation committee will determine the amounts to be paid to each employee for each measurement period or the extent to which awards vest. The compensation committee will certify in writing before payments are made the extent to which the goals were met and the payment amounts. The compensation committee does not have discretion to increase the amount of an award or accelerate the vesting of an award if such action would cause the award or any part thereof to not be deductible under the Code. The compensation committee may exercise negative discretion in a manner consistent with Section 162(m).

All cash payments for awards will be made on or before March 15th of the year following the year in which the measurement period ends, unless a valid deferral election is made which complies with Section 409A of the Code.

**Amendment and Termination.** The compensation committee may amend or terminate the Revised EIP on a prospective basis at any time although it does not have the power to amend the Revised EIP in any fashion that would cause the Revised EIP to fail to qualify as performance-based compensation with respect to any "covered employee" under Section 162(m).

**Non-Exclusivity.** The Revised EIP is not the Company's exclusive plan from which it may award performance-based compensation. In addition, the compensation committee may adopt other plans designed to award performance-based compensation, subject to the applicable provisions under Section 162(m) and applicable stockholder approval requirements.

**New Plan Benefits.** It is not possible to determine the specific amounts of awards that may be granted in the future under the Revised EIP because the grant of awards is discretionary and the actual payout of awards is subject to Company performance.

## U.S. Federal Income Tax Consequences

The following is a brief summary of the U.S. federal income tax consequences with respect to operation of the Revised EIP. It does not purport to be complete and does not discuss the tax consequences arising in connection with a participant's death or under any tax law other than U.S. federal income tax law.

All cash amounts paid pursuant to the Revised EIP constitute taxable income to the employee when received. If an employee elects to defer a portion of a Revised EIP bonus, he or she may be entitled to defer receipt of the bonus payment year in a manner that complies with Section 409A of the Code and the recognition of income to a later year.

If a participant receives unrestricted shares in payment of an award under the Revised EIP (pursuant to an equity award plan of the Company), the payment generally will be subject to tax at ordinary income rates on the fair market value of the shares at such time.

If a participant receives restricted stock units in payment of an award under the Revised EIP (pursuant to an equity award plan of the Company), no income generally will be recognized upon the award of such restricted stock units. The recipient of a restricted stock unit award generally will be subject to tax at ordinary income rates on the fair market value of common shares on the date that such shares are transferred to the participant under the award, and the capital gains/loss holding period for such shares will also commence on such date.

Generally, for amounts less than \$1 million, we will receive a federal income tax deduction corresponding to the amount of income recognized by a participant in the Revised EIP. If the awards under the Revised EIP qualify as qualified performance-based compensation for purposes of Section 162(m), then we may be able to receive a federal income tax deduction for certain compensation paid to our chief executive officer and the other three most highly compensated executive officers (other than our Chief Financial Officer) in excess of \$1 million for any taxable year.

### **VOTE REQUIRED TO APPROVE PROPOSAL NO. 3; BOARD RECOMMENDATION**

Stockholder approval of Proposal No. 3 requires the affirmative vote of the holders of a majority of the stock having voting power present in person or represented by proxy on the matter at the annual meeting.

### **THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE LAM 2004 EXECUTIVE INCENTIVE PLAN, AS AMENDED AND RESTATED.**

## Proposal No. 4: Approval of the Adoption of the Lam 2015 Stock Incentive Plan

On May 13, 2015, upon the recommendation of the compensation committee, our board of directors unanimously approved and adopted the Lam 2015 Stock Incentive Plan (which we refer to as the “2015 Plan”), subject to the approval of our stockholders at the annual meeting. If approved by our stockholders, the 2015 Plan will replace our 2007 Stock Incentive Plan (which we refer to as the “2007 Plan”).

Our stockholders previously approved our 2007 Plan, which currently allows us to grant stock options, stock appreciation rights, and stock awards (which include restricted stock, restricted stock units, deferred stock, performance shares, phantom stock and similar awards) to our executive officers, employees (and those of our affiliates), non-employee directors, and consultants. In the event that our stockholders approve the 2015 Plan, no future awards will be granted under the 2007 Plan (nor under the Company’s 2011 Stock Incentive Plan (as amended), or the “2011 Plan,” as described in further detail in “*Why We Believe You Should Vote for Proposal No. 4*” below) after the date of such approval. In the event that our stockholders do not approve the 2015 Plan, the 2015 Plan will not become effective, no awards will be granted under the 2015 Plan, and the 2007 Plan and 2011 Plan will continue in accordance with their terms.

The affirmative vote of the holders of a majority of the stock having voting power present in person or represented by proxy on this proposal at the annual meeting is required to approve the 2015 Plan.

The following summary of the material provisions of the 2015 Plan which are highlighted in “*Figure 5. 2015 Stock Incentive Plan Highlights*” above is not intended to be exhaustive and is qualified in its entirety by the terms of the 2015 Plan, a copy of which is set forth as [Appendix B](#) to this proxy statement.

### **Why We Believe You Should Vote for Proposal No. 4**

We believe our future success depends in part on our ability to attract and retain high quality employees and directors and

that the ability to provide equity-based awards under the 2015 Plan is critical to achieving this success. We would be at a severe competitive disadvantage if we could not use stock-based awards to recruit and compensate our officers, employees and non-employee directors.

The use of our stock as part of our compensation program is also important to our continued success because we believe it fosters a pay-for-performance culture that is an important element of our overall compensation philosophy. We believe that equity compensation motivates officers, employees, consultants and non-employee directors to create stockholder value because the value they realize from equity compensation is based on our stock price performance. Equity compensation also aligns the compensation interests of our officers, employees, consultants and non-employee directors with the investment interests of our stockholders and promotes a focus on long-term value creation because our equity compensation awards can be subject to vesting and/or performance criteria.

The 2015 Plan authorizes the board, or any other board committee, to provide equity-based compensation in the form of stock options, stock appreciation rights, or SARs, restricted stock, restricted stock units, or RSUs, and other awards (including, but not limited to, purchase rights for shares, bonus shares, deferred shares, performance shares, and phantom shares) for the purpose of providing our officers, employees, directors and consultants, incentives and rewards for performance while promoting the success of our business.

As of August 23, 2015, 1,293,296 shares remained available for issuance under the 2007 Plan. If the 2015 Plan is not approved, we may be compelled to increase significantly the cash component of our non-employee director and employee compensation, which may not necessarily align employee or director compensation interests with the investment interests of our stockholders as well as the alignment provided by equity-based awards. Replacing equity awards with cash would also increase cash compensation expense and require

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us to use cash that would be better utilized if reinvested in our businesses or returned to our stockholders.

The following includes aggregated information regarding the overhang and dilution associated with the 2007 Plan and the potential stockholder dilution that would result if our proposed share authorization under the 2015 Plan is approved. The information is as of August 23, 2015. As of that date, there were approximately 158,353,014 of our shares of common stock outstanding:

#### 2007 Plan

- Outstanding stock options: 391,223 shares (0.2% of our outstanding shares). Our outstanding stock options have a weighted-average exercise price of \$37.57 and an average remaining term of 1.9 years;
- Unvested RSU awards: 3,233,588 shares (2.0% of our outstanding shares);
- Outstanding Market-Based PRSUs, assuming that the outstanding awards achieve maximum performance: 1,369,712 shares (0.9% of our outstanding shares);
- Total shares subject to outstanding awards, as described above (stock options, unvested RSU awards, and outstanding Market-Based PRSUs): 4,994,523 shares (3.2% of our outstanding shares);
- Total shares available for future awards under the 2007 Plan: 1,293,296 shares (0.8% of our outstanding shares);
- The total number of shares subject to outstanding awards: 4,994,523 shares, plus the total number of shares available for future awards under the 2007 Plan (1,293,296 shares), represents a current overhang percentage of 3.8% (in other words, the dilution of our stockholders represented by the 2007 Plan);

#### 2015 Plan

- Proposed shares available for issuance under the 2015 Plan:
  - 18,000,000 shares (10.2% of our outstanding shares – this percentage reflects the simple dilution of our stockholders that would occur if the 2015 Plan is approved), plus
  - the total shares available for future awards under the 2007 Plan as of August 23, 2015 (1,293,296 shares).
- The total shares subject to outstanding 2007 Plan awards as of August 23, 2015 (4,994,523 shares), plus the total shares available for future awards under the 2007 Plan as of that date, as described above, plus the proposed shares available for issuance under the 2015 Plan (18,000,000 shares), represent an overhang of 24,287,819 shares (13.3%).

Based on the closing price on NASDAQ for our common stock on September 8, 2015 of \$72.63 per share, the aggregate market value as of September 8, 2015 of the 18,000,000 shares requested for issuance under the 2015 Plan was

\$1,307,340,000. In calendar years 2012, 2013 and 2014, we granted awards under the 2007 Plan covering 2,981,214 shares, 1,101,124 shares, and 2,088,485 shares, respectively.

In determining the number of shares to request for approval under the 2015 Plan, our compensation committee received advice from Compensia, the compensation committee's independent compensation consultant, and from management relative to recent share usage and other criteria.

The Company's 2011 Plan, which we assumed as a result of the Novellus Systems, Inc. transaction, allows the Company to make grants of awards in limited circumstances under the applicable NASDAQ rules. Under the terms of the 2015 Plan, no additional grants will be made under the 2011 Plan as of the effective date of the 2015 Plan. As of August 23, 2015, 611,116 shares were subject to outstanding awards under the 2011 Plan (assuming that the outstanding awards achieve maximum performance, where applicable) and 5,291,115 shares remained available for grant under the 2011 Plan, which will expire ungranted (and will not be available for grant under the 2015 Plan) as of the effective date of the 2015 Plan. In addition, no forfeitures under the 2011 Plan will be available for future issuance under the 2015 Plan. To the extent that the 2015 Plan is not approved by our stockholders, the 2011 Plan will remain in effect.

If the 2015 Plan is approved, we intend to utilize the shares authorized under the 2015 Plan to continue our practice of motivating key individuals through periodic equity grants. We anticipate that the shares requested in connection with the approval of the 2015 Plan will last for approximately two to three years, based on our historic grant rates and the approximate current stock price, but could last for a shorter period of time if actual practice does not match historic rates or our share price or employee headcount changes materially. As noted in "2015 Plan Highlights" below and elsewhere below, our compensation committee would retain full discretion under the 2015 Plan to determine the number and amount of awards to be granted under the 2015 Plan, subject to the terms of the 2015 Plan, and future benefits that may be received by participants under the 2015 Plan are not determinable at this time.

We believe that we have demonstrated a commitment to sound equity compensation practices in recent years. We recognize that equity compensation awards dilute stockholder equity, so we have carefully managed our equity incentive compensation. Our equity compensation practices are intended to be competitive and consistent with market practices, and we believe our historical share usage has been responsible and mindful of stockholder interests, as described above.

In evaluating this Proposal No. 4, stockholders should consider the factors set forth under "2015 Plan Highlights" below, plus the remaining information in this Proposal.

## 2015 Plan Highlights

**Administration.** The 2015 Plan is administered, with respect to grants to officers, directors, employees and consultants, by the plan administrator, or the “Administrator,” defined as the board or one or more committees designated by the board. The compensation committee will act as the initial Administrator. With respect to grants to officers and directors, the compensation committee shall be constituted in such a manner as to satisfy applicable laws, including Rule 16b-3 promulgated under the Exchange Act and Section 162(m) of the Code.

**Award Types.** The 2015 Plan provides for the grant of options, restricted stock, restricted stock units, stock appreciation rights, and other awards. Summary descriptions of each award type are below:

- **Stock Options.** A stock option (whether an incentive stock option or non-qualified stock option) entitles the grantee to purchase a specified number of shares of common stock at a price not less than market value per share on the date of grant.
- **Restricted Stock.** A grant of restricted stock involves the immediate transfer by the Company to a grantee of ownership of a specific number of shares of common stock in consideration of the performance of services.
- **Restricted Stock Units, or RSUs.** A grant of RSUs constitutes an agreement by the Company to deliver shares of common stock or cash, or a combination of both, to the grantee in the future in consideration of the performance of services, but subject to the fulfillment of such conditions during the restriction period as the Administrator may specify.
- **Stock Appreciation Rights, or SARs.** A SAR is a right to receive from the Company an amount equal to 100%, or such lesser percentage as the Administrator may determine, of the spread between the base price and the value of the Company’s shares of common stock on the date of exercise.
- **Other Awards.** Other awards under the 2015 Plan are awards denominated or payable shares or cash, including, but not limited to, purchase rights for shares, the grant of shares as a bonus, deferred shares, performance shares, phantom shares, and other similar types of awards, each with the terms and conditions as determined by the Administrator pursuant to an award agreement.

**Eligibility.** The 2015 Plan authorizes the Administrator to select the employees, directors and consultants of the Company or a related entity to whom awards may be granted. Options granted under the 2015 Plan may be either Incentive Stock Options under the provisions of Section 422 of the Code, or Nonstatutory Stock Options. Awards other than Incentive Stock Options may be granted to employees, directors and consultants of the Company and its subsidiaries and affiliates. Incentive Stock Options may be granted only to employees of

the Company, its parent or any of its subsidiaries. The aggregate fair market value of the common stock with respect to any Incentive Stock Options that become exercisable by an eligible employee in any calendar year may not exceed \$100,000 or the remaining options shall be treated as Nonstatutory Stock Options. Under the 2015 Plan, awards may be granted to employees who are residing in non-U.S. jurisdictions as the Administrator may determine from time to time.

**Terms and Conditions of Awards.** Each award shall be designated in an award agreement. Awards may be granted subject to an exercise or conversion privilege related to the passage of time or the grantee’s provision of service to the Company, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions as determined by the Administrator. The Administrator may provide for the payment of dividends or dividend equivalent rights in the terms of an award, as evidenced in the award agreement. Such amounts may be paid in cash or additional shares and may be subject to the same vesting restrictions as the underlying award.

Subject to the terms of the 2015 Plan, the Administrator shall determine the provisions, terms, and conditions of each award including, but not limited to, the award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash or shares) upon settlement of the award, payment contingencies, and satisfaction of any performance criteria.

The term of each award under the 2015 Plan shall be the term stated in the related award agreement; provided, however, that the term of any award may not be more than ten years, or five years in the case of Incentive Stock Options awarded to any grantee who owns stock representing more than 10% of the combined voting power of the Company or any parent or subsidiary of the Company.

The 2015 Plan authorizes the Administrator to grant options and SARs at an exercise price that is not less than 100% of the fair market value of the common stock on the date the option is granted; however, the price must not be less than 110%, in the case of Incentive Stock Options granted to any grantee who owns stock representing more than 10% of the combined voting power of the Company or any parent or subsidiary of the Company. In the case of restricted stock and restricted stock units, the purchase price, if any, will be determined by the Administrator. Any options and SARs intended to qualify as performance-based awards will have an exercise price or purchase price, as applicable, that is not less than 100% of the fair market value of the common stock on the date the award is granted. The exercise price or purchase price, as applicable, is generally payable in cash, check, shares of common stock or, with respect to options, through a broker-dealer sale and remittance procedure.

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**2015 Plan Reserve.** Under the terms of the 2015 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards is 18,000,000 shares plus the number of shares that remain available for grants under the 2007 Plan as of the date of the 2015 annual meeting of stockholders. As of August 23, 2015, the number of shares that remained available for grants under the 2007 Plan was 1,293,296. In addition, any shares that would return to the 2007 Plan shall also be available for grant under the 2015 Plan (ignoring for this purpose the expiration of the 2007 Plan). The shares issued pursuant to awards may be authorized, but unissued, or reacquired shares of common stock. Although the maximum aggregate number of shares that may be issued pursuant to all awards is as set forth above, the maximum aggregate number of shares which may be issued pursuant to all awards of Incentive Stock Options is 18,000,000 shares.

As of September 8, 2015, approximately five officers (as defined in Rule 16a-1(f) under the Exchange Act), 10 non-employee directors, and 7,300 employees of the Company would have been eligible to receive grants under the 2015 Plan had the 2015 Plan been effective as of such date. The Company generally does not grant equity awards to consultants. As of September 8, 2015, the fair market value of a share of common stock as reported on the NASDAQ Global Select Market was \$72.63. As of August 23, 2015, other than the 1,293,296 shares that remained available for grants under the 2007 Plan and 5,291,115 shares that remained available for grants under the 2011 Plan (in limited circumstances, where permitted under NASDAQ rules), no other Company equity plans had shares available for the grant of awards.

**2015 Plan Grant Limits.** The maximum number of shares with respect to which options and SARs may be granted to a grantee during a fiscal year of the Company is 1,000,000 shares. In addition, the maximum number of shares with respect to which options and SARs may be granted to a grantee during a fiscal year of the Company in which such grantee commences employment with the Company is 2,000,000 shares. The maximum number of shares with respect to which restricted stock, restricted stock units and other awards intended to be performance-based compensation may be granted to a grantee during a fiscal year of the Company is 600,000 shares. The foregoing limitations are subject to adjustment in the event of a stock split, stock or other extraordinary dividend, or other similar change in the common stock or capital structure of the Company.

**Share Counting Mechanics & Fungible Share Limits.** Options and SARs shall be counted against the 2015 Plan share limit as one share subject to such an option or SAR (and shall be counted as one share returned to the 2015 Plan in connection with options and SARs).

In order to manage the dilution impact of awards granted under the 2015 Plan, shares subject to awards other than options and SARs granted under the 2015 Plan (e.g., restricted stock, restricted stock units and other awards) shall

count against the 2015 Plan share limit at a greater than a 1:1 rate. Any shares subject to awards granted under the 2015 Plan other than options and SARs shall be counted against the 2015 Plan share limit as two shares for every one share subject to such award (and shall be counted as two shares for every one share returned to the 2015 Plan in connection with awards other than options and SARs).

**Limitations on Non-Employee Director Awards.** The maximum number of shares with respect to which awards may be granted to a non-employee director during a fiscal year of the Company is 80,000 shares (whether options, restricted stock, RSUs, SARs, other awards, or a combination thereof). The maximum number of shares that may be granted to a non-employee director was determined by our compensation committee in consultation with Compensia, its independent compensation consultant, and designed to provide a suitable limit for the life of the 2015 Plan, including if the Company were to switch entirely to issuing stock options. The foregoing limitation is subject to adjustment in the event of a stock split, stock or other extraordinary dividend, or other similar change in the common stock or capital structure of the Company. No option shall have a term which exceeds ten years and the exercise price shall not be less than 100% of the fair market value of a share on the date of grant.

**Allowances for Acquisitions or Similar Transactions.** The Administrator may issue awards under the 2015 Plan in the assumption, conversion, or in substitution, of outstanding awards in connection with the Company or a related entity acquiring another entity, an interest in another entity or an additional interest in a related entity by merger, stock purchase, asset purchase or another form of transaction. Any shares that are issued in such circumstances will not reduce the number of shares available for issuance under the 2015 Plan or otherwise count against the other 2015 Plan limits described above.

**Adjustments Upon Changes in Capitalization.** Subject to any required action by the stockholders of the Company, the number of shares of common stock covered by outstanding awards, the number of shares of common stock that have been authorized for issuance under the 2015 Plan, the exercise or purchase price of each outstanding award, the maximum number of shares of common stock that may be granted subject to awards to any participant in a fiscal year, and the like, shall be proportionally adjusted by the Administrator in the event of (i) any increase or decrease in the number of issued shares of common stock resulting from a stock split, stock dividend, combination or reclassification or similar event affecting the common stock, (ii) any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by the Company or (iii) any other transaction with respect to common stock including a corporate merger, consolidation, acquisition of property or stock, separation (including a spin-off or other distribution of stock or property), reorganization, liquidation (whether partial or complete), distribution of cash or other

assets to shareholders other than a normal cash dividend, or any similar transaction; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” Such adjustment shall be made by the Administrator, and its determination shall be final, binding and conclusive.

**Shares Available for Awards.** Any shares covered by an award which is forfeited, canceled or expires, shall be deemed not to have been issued for purposes of determining the maximum number of shares which may be issued under the 2015 Plan. Shares that have been issued under the 2015 Plan (e.g., restricted stock) pursuant to an award shall not be returned to the 2015 Plan and shall not become available for future grant under the 2015 Plan, except where unvested shares are forfeited or repurchased by the Company at the lower of their original purchase price or their fair market value. Shares tendered or withheld in payment of an option or SAR exercise price or withheld by the Company to pay any option or SAR tax withholding obligation shall not be returned to the 2015 Plan and shall not become available for future issuances under the 2015 Plan. Shares tendered or withheld in payment of any tax withholding obligation for an award other than for an option or SAR shall be returned to the 2015 Plan and shall become available for future issuance under the 2015 Plan for purposes of attracting and retaining key talent.

**Minimum Vesting Periods.** No award may vest sooner than the one-year anniversary of the date of grant (except with respect to 5% of the maximum aggregate number of shares that may be issued pursuant to the 2015 Plan or as otherwise described below). An award may provide for earlier vesting in specific circumstances, including (i) in the event of the death or disability of a grantee, or (ii) in the event of a Corporate Transaction (as defined in “*Corporate Transactions*” below) where either (A) within a specified period the grantee is involuntarily terminated for reasons other than for cause or terminates his or her employment for good reason or (B) such awards are not assumed or converted into replacement awards as evidenced in the applicable award agreement. Moreover, special vesting limitations apply to awards granted to a non-employee director, as discussed above.

**No Repricing without Stockholder Approval.** The Company shall obtain stockholder approval prior to (a) the reduction of the exercise price of any option or SAR awarded under the 2015 Plan or (b) the cancellation of an option or SAR at a time when its exercise price exceeds the fair market value of the underlying shares, in exchange for cash, another award, or an option or SAR with a lower exercise price (unless the cancellation and exchange occurs in connection with an acquisition by the Company, a change in the Company’s capitalization, or a Corporate Transaction).

**Corporate Transactions.** Unless otherwise set forth in an award agreement, a Corporate Transaction for purposes of

the 2015 Plan is (i) a merger or consolidation in which the Company is not the surviving entity or survives only as a subsidiary of another entity whose stockholders did not own all or substantially all of the Company’s common stock in substantially the same proportions as immediately prior to such transaction, (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company, or (iii) the acquisition, sale, or transfer of more than 50% of the outstanding shares of the Company by tender offer or similar transaction.

In the event of a Corporate Transaction, any or all outstanding awards shall be subject to the definitive agreement governing the Corporate Transaction. Such transaction agreement may provide, without limitation, for (A) the assumption, substitution or replacement with equivalent awards of outstanding awards (but in each case adjusted to reflect the transaction terms) by the surviving corporation or its parent, (B) continuation of outstanding awards (but again adjusted to reflect the transaction terms) by the Company if the Company is a surviving corporation, (C) accelerated vesting, or lapse of repurchase rights or forfeiture conditions applicable to, and accelerated expiration or termination of, the outstanding awards, or (D) settlement of outstanding awards (including termination thereof) in cash. Except for adjustments to reflect the transaction terms as referenced above or, to the extent any award or shares are subject to accelerated vesting or lapse of restrictions approved by the board or compensation committee upon specific events or conditions (and then only to the extent such acceleration benefits are reflected in the transaction agreement, the applicable award agreement or another written agreement between the participant and the Company), any outstanding awards that are assumed, substituted, replaced with equivalent awards or continued shall continue following the transaction to be subject to the same vesting or other restrictions that applied to the original award. The Administrator need not adopt the same rules or apply the same treatment for each award or grantee. In the event of a dissolution or liquidation of the Company, to the extent an award has not been exercised or the shares subject thereto have not been issued in full prior to the earlier of the completion of the transaction or the applicable expiration date of the award, then outstanding awards shall terminate immediately prior to the transaction.

**Amendment, Suspension or Termination of the 2015 Plan.** The 2015 Plan will terminate ten years from its effective date, unless earlier terminated by the board. The board may at any time amend, suspend or terminate the 2015 Plan; provided, however, that the Company shall obtain stockholder approval of any such amendment in such a manner and to such a degree as required by applicable provisions of federal securities laws, state corporate and securities laws, the Code, applicable rules of any stock exchange or national market system, and the rules of any foreign jurisdiction applicable to awards granted to residents of the jurisdiction.

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*Recoupment/Clawback Provisions.* Awards issued under the 2015 Plan shall be subject to any applicable recoupment or clawback policy adopted by the Company.

## Section 162(m) of the Code

The Code limits to \$1 million per taxable year the deduction allowed for federal income tax purposes for compensation paid to the chief executive officer and the next three most highly compensated executive officers (other than the chief financial officer) of public companies (we refer to this limit as the “Deduction Limit”). The Deduction Limit applies to compensation that does not qualify for any of a limited number of exceptions. The Deduction Limit does not apply to compensation paid under a stockholder-approved plan that meets certain requirements for “qualified performance-based compensation.”

The 2015 Plan performance criteria established by the Administrator may be based on any one of, or combination of, the following: (i) stock or market price; (ii) earnings per share; (iii) total shareholder value or return; (iv) operating margin (with or without regard to amortization/impairment of goodwill); (v) gross margin; (vi) return on equity or average shareholder's equity; (vii) return on assets or net assets; (viii) return on investment; (ix) income; (x) net income; (xi) operating income; (xii) net operating income; (xiii) pre-tax profit; (xiv) cash flow (including free cash flow); (xv) revenue; (xvi) expenses; (xvii) earnings (including special or extraordinary items); (xviii) earnings before taxes; (xix) earnings before interest and taxes; (xx) net earnings; (xxi) earnings before interest, taxes and depreciation; (xxii) economic value added; (xxiii) market share; (xxiv) applications won; (xxv) controllable profits; (xxvi) customer satisfaction management by objectives; (xxvii) individual management by objectives; (xxviii) product or technological developments; (xxix) net income; (xxx) orders (whether new or not); (xxxi) pro forma net income; (xxxii) asset turnover; (xxxiii) minimum cash balances; (xxxiv) return on sales; (xxxv) return on capital or invested capital; (xxxvi) operational performance; (xxxvii) backlog; (xxxviii) deferred revenue; (xxxix) revenue per employee; (xxxx) overhead; (xxxxi) days sales outstanding; (xxxxii) inventory turns; (xxxxiii) operating cash flow; and (xxxxiv) strategic plan development and implementation (including individually designed goals and objectives that are consistent with the grantee's specific duties and responsibilities and that are designed to improve the organizational performance of the Company, an affiliate, or a specific business unit thereof and that are consistent with and derived from the strategic operating plan of the Company, an affiliate or any of their business units for the applicable performance period). For awards that are not intended to qualify as “performance-based compensation,” the performance criteria established by the Administrator may be based on personal management objectives, or other measures of performance selected by the Administrator. The level or levels of performance specified with respect to a performance goal may

be GAAP or non-GAAP measures (and may, without limitation, appropriately adjust any evaluation of performance under the business criteria to exclude any of the following events that occurs during a performance period: (A) asset write-downs; (B) litigation or claim judgments or settlements; (C) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (D) accruals for reorganization and restructuring programs; and (E) any extraordinary non-recurring items as described in FASB Accounting Standards Codification 225 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year) as determined by the Administrator and may be established in absolute terms, as objectives relative to performance in prior periods, as an objective compared to the performance of one or more comparable companies or an index covering multiple companies, or otherwise as the Administrator may determine. The performance criteria may be applicable to the Company, related entities and/or any individual business units of the Company or any related entity including on a pro forma basis. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the award agreement.

## U.S. Federal Income Tax Consequences

The following is a brief summary of some of the U.S. federal income tax consequences of certain transactions under the 2015 Plan based on federal income tax laws in effect as of the date of this proxy statement. This summary, which is presented for the information of stockholders considering how to vote on this proposal and not for 2015 Plan participants, is not intended to be complete and does not describe U.S. federal taxes other than income taxes (such as Medicare and Social Security taxes), state local or foreign tax consequences.

### *Tax Consequences to Participants*

- *Non-Qualified Stock Options.* In general, (1) no income will be recognized by an optionee at the time a non-qualified stock option is granted; (2) at the time of exercise of a non-qualified stock option, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the shares of common stock and the fair market value of the shares of common stock, if unrestricted, on the date of exercise; and (3) at the time of sale of shares of common stock acquired pursuant to the exercise of a non-qualified stock option, appreciation (or depreciation) in value of the shares of common stock after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares of common stock have been held.
- *Incentive Stock Options.* No income generally will be recognized by an optionee upon the grant or exercise of

an Incentive Stock Option. The exercise of an Incentive Stock Option, however, may result in alternative minimum tax liability. If shares of common stock are issued to the optionee pursuant to the exercise of an Incentive Stock Option, and if no disqualifying disposition of such shares of common stock is made by such optionee within two years after the date of grant or within one year after the transfer of such shares of common stock to the optionee, then upon sale of such shares of common stock, any amount realized in excess of the option price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss.

If shares of common stock acquired upon the exercise of an Incentive Stock Option are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares of common stock at the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the option price paid for such shares of common stock. Any further gain (or loss) realized by the participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

- **Stock Appreciation Rights, or SARs.** No income will be recognized by a participant in connection with the grant of a SAR. When the SAR is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the fair market value of any unrestricted shares of common stock received on the exercise.
- **Restricted Stock.** The recipient of restricted stock generally will be subject to tax at ordinary income rates on the fair market value of the restricted stock (reduced by any amount paid by the participant for such restricted stock) at such time as the shares of common stock are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Code (which we refer to as the "Restrictions"). However, a recipient may instead elect under Section 83(b) of the Code within 30 days of the date of transfer of the shares of common stock to have taxable ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares of common stock (determined without regard to the Restrictions) over the purchase price, if any, of such restricted stock. If a Section 83(b) election has not been made, any dividends received with respect to restricted stock that is subject to the Restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.
- **RSUs.** No income generally will be recognized upon the award of RSUs. The recipient of an RSU award generally

will be subject to tax at ordinary income rates on the fair market value of unrestricted shares of common stock on the date that such shares are transferred to the participant under the award (reduced by any amount paid by the participant for such RSUs, if any), and the capital gains/loss holding period for such shares will also commence on such date.

- **Other Awards.** No income generally will be recognized upon the grant of other awards under the 2015 Plan, such as performance shares. Upon payment in respect of other awards, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any unrestricted shares of common stock received.

#### *Tax Consequences to the Company or its Subsidiaries*

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or the subsidiary for which the participant performs services will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Section 280G of the Code and is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Code. In this regard, certain types of awards under the 2015 Plan, such as time-vested restricted stock and RSUs, cannot qualify as performance-based awards under Section 162(m), and in other cases awards may fail to qualify if all requirements for qualification are not met in connection with such awards.

#### **New 2015 Plan Benefits**

It is not possible to determine the specific amounts and types of awards that may be awarded in the future under the 2015 Plan because the grant and actual pay-out of awards under the 2015 Plan are subject to the discretion of the Administrator.

#### **Registration with the SEC**

We intend to file a Registration Statement on Form S-8 relating to the issuance of shares of common stock under the 2015 Plan with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, as soon as practicable after approval of the 2015 Plan by our stockholders.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE 2015 STOCK INCENTIVE PLAN.**

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## Proposal No. 5: Ratification of the Appointment of the Independent Registered Public Accounting Firm for Fiscal Year 2016

Stockholders are being asked to ratify the appointment of Ernst & Young LLP, or “EY,” as the Company’s independent registered public accounting firm for fiscal year 2016. Although the audit committee has the sole authority to appoint the Company’s independent registered public accounting firm, as a matter of good corporate governance, the board submits its selection to our stockholders for ratification. If the stockholders should not ratify the appointment of EY, the audit committee will contemplate whether to reconsider the appointment. EY has been the Company’s independent registered public accounting firm (independent auditor) since fiscal year 1981.

Approval of Proposal No. 5 will require the affirmative vote of a majority of the outstanding shares of common stock present or represented and voting on the proposal at the annual meeting. Each proxy received by the Proxy Holders will be voted “FOR” the ratification of the appointment of EY, unless the stockholder provides other instructions.

Our audit committee meets periodically with EY to review both audit and non-audit services performed by EY, as well as the fees charged for those services. Among other things, the committee examines the effect that the performance of

non-audit services, if any, may have upon the independence of the independent registered public accounting firm. All professional services provided by EY, including non-audit services, if any, are subject to approval by the audit committee in accordance with applicable securities laws, rules, and regulations. For more information, see “*Audit Matters – Audit Committee Report*” and “*Audit Matters – Relationship with Independent Registered Public Accounting Firm*” above.

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

Stockholder approval of Proposal No. 5 requires the affirmative vote of a majority of the shares present and cast on the matter, in person or by proxy, at the annual meeting.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2016.**

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## Other Voting Matters

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

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

# Voting and Meeting Information

## Information Concerning Solicitation and Voting

Our board of directors solicits your proxy for the 2015 Annual Meeting of Stockholders and any adjournment or postponement of the meeting, for the purposes described in the “Notice of 2015 Annual Meeting of Stockholders.” The sections below show important details about the annual meeting and voting.

### Record Date

Only stockholders of record at the close of business on September 8, 2015, the “Record Date,” are entitled to receive notice of and to vote at the annual meeting.

### Shares Outstanding

158,498,813 shares of common stock were outstanding as of the Record Date.

### Quorum

A majority of shares outstanding on the Record Date constitutes a quorum. A quorum is required to transact business at the annual meeting.

### Inspector of Elections

The Company will appoint an inspector of elections to determine whether a quorum is present. The inspector will also tabulate the votes cast by proxy or at the annual meeting.

### Effect of Abstentions and Broker Non-Votes

Shares voted “abstain” and broker non-votes (shares held by brokers that do not receive voting instructions from the beneficial owner of the shares, and do not have discretionary authority to vote on a matter) will be counted as present for purposes of determining whether we have a quorum. For purposes of voting results, abstentions will not be counted with respect to the election of directors but will have the effect of “no” votes with respect to other proposals, and broker non-votes will not be counted with respect to any proposal.

### Voting by Proxy

Stockholders may vote by internet, phone, or mail, per the instructions on the accompanying proxy card.

### Voting at the Meeting

Stockholders can vote in person during the meeting. Stockholders of record will be on a list held by the inspector of

elections. Each beneficial owner (an owner who is not the record holder of their shares) must obtain a proxy from the beneficial owner’s brokerage firm, bank, or the stockholder of record holding such shares for the beneficial owner, and present it to the inspector of elections with a ballot. Voting in person by a stockholder as described here will replace any previous votes of that stockholder submitted by proxy.

### Changing Your Vote

Stockholders of record may change their votes by revoking their proxies. This may be done at any time before the polls close by (i) submitting a later-dated proxy by the internet, telephone or mail, or (ii) submitting a vote in person at the annual meeting. Before the annual meeting, stockholders of record may also deliver voting instructions to: Lam Research Corporation, Attention: Secretary, 4650 Cushing Parkway, Fremont, California 94538. If a beneficial owner holds shares through a bank or brokerage firm, or another stockholder of record, the beneficial owner must contact the stockholder of record in order to revoke any prior voting instructions.

### Voting Instructions

If a stockholder completes and submits proxy voting instructions, the people named on the proxy card as proxy holders, the “Proxy Holders,” will follow the stockholder’s instructions. If a stockholder submits proxy voting instructions but does not include voting instructions for each item, the Proxy Holders will vote as the board recommends on each item for which the stockholder did not include an instruction. The Proxy Holders will vote on any other matters properly presented at the annual meeting in accordance with their best judgment.

### Voting Results

We will announce preliminary results at the annual meeting. We will report final voting results at <http://investor.lamresearch.com> and in a Form 8-K to be filed shortly after the annual meeting.

### Availability of Proxy Materials

Beginning on September 21, 2015, this proxy statement and the accompanying proxy card and 2015 Annual Report to Stockholders will be mailed to stockholders entitled to vote at the annual meeting who have designated a preference for a printed copy. Stockholders who previously chose to receive proxy materials electronically were sent an email with instructions on how to access this year’s proxy materials and the proxy voting site.

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We have also provided our stockholders access to our proxy materials over the internet in accordance with rules and regulations adopted by the SEC. These materials are available on our website at <http://investor.lamresearch.com> and at [www.proxyvote.com](http://www.proxyvote.com). We will furnish, without charge, a printed copy of these materials and our 2015 Annual Report (including exhibits) on request by phone (510-572-1615), by mail (to Investor Relations, Lam Research Corporation, 4650 Cushing Parkway, Fremont, California 94538), or by email (to [investor.relations@lamresearch.com](mailto:investor.relations@lamresearch.com)).

A Notice of Internet Availability of Proxy Materials will be mailed beginning on September 21, 2015 to all stockholders entitled to vote at the meeting. The notice will have instructions for stockholders on how to access our proxy materials through the internet and how to request that a printed copy of the proxy materials be mailed to them. The notice will also have instructions on how to elect to receive all future proxy materials electronically or in printed form. If you choose to receive future proxy materials electronically, you will

receive an email each year with instructions on how to access the proxy materials and proxy voting site.

## Proxy Solicitation Costs

The Company will bear the cost of all proxy solicitation activities. Our directors, officers and other employees may solicit proxies personally or by telephone, email or other communication means, without any cost to Lam Research. In addition, we have retained D.F. King & Co., Inc. to assist in obtaining proxies by mail, facsimile or email from brokers, bank nominees and other institutions for the annual meeting. The estimated cost of such services is \$12,000 plus out-of-pocket expenses. D.F. King & Co, Inc. may be contacted at 48 Wall Street, New York, 10005. We are required to request that brokers and nominees who hold stock in their names furnish our proxy materials to the beneficial owners of the stock, and we must reimburse these brokers and nominees for the expenses of doing so in accordance with statutory fee schedules.

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## Other Meeting Information

### Annual Meeting Admission

All stockholders entitled to vote as of the Record Date are entitled to attend the annual meeting. Admission of stockholders will begin at 9:30 a.m. Pacific Standard Time on November 4, 2015. Any stockholders interested in attending the annual meeting should be prepared to present government-issued photo identification, such as a valid driver's license or passport, and verification of ownership of Company common stock or proxy status as of the Record Date for admittance. For stockholders of record as of the Record Date, proof of ownership as of the Record Date will be verified prior to admittance into the annual meeting. For stockholders who were not stockholders as of the Record Date but hold shares through a bank, broker or other nominee holder, proof of beneficial ownership as of the Record Date, such as an account statement or similar evidence of ownership, will be verified prior to admittance into the annual meeting. For proxy holders, proof of valid proxy status will also be verified prior to admittance into the annual meeting. Stockholders and proxy holders will be admitted to the annual meeting if they comply with these procedures. Information on how to obtain directions to attend the annual meeting and vote in person is available on our website at <http://investor.lamresearch.com>.

### Voting on Proposals

Pursuant to Proposal No. 1, board members will be elected at the annual meeting to fill nine seats on the board to serve for the ensuing year, and until their respective successors are elected and qualified, under a "majority vote" standard. The majority voting standard means that, even though there are

nine nominees for the nine board seats, a nominee will be elected only if he or she receives an affirmative "for" vote from stockholders owning, as of the Record Date, at least a majority of the shares present and voted at the meeting in such nominee's election by proxy or in person. If an incumbent fails to receive the required majority, his or her previously submitted resignation will be promptly considered by the board. Each stockholder may cast one vote ("for" or "withhold"), per share held, for each of the nine nominees. Stockholders may not cumulate votes in the election of directors.

Each share is entitled to one vote on Proposals No. 2, 3, 4 and 5. Votes may be cast "for," "against" or "abstain" on those Proposals.

If a stockholder votes by means of the proxy solicited by this proxy statement and does not instruct the Proxy Holders how to vote, the Proxy Holders will vote: "FOR" all individuals nominated by the board; "FOR" approval, on an advisory basis, of the compensation of our named executive officers; "FOR" the approval of the Lam 2004 Executive Incentive Plan, as amended and restated; "FOR" the approval of the adoption of the Lam 2015 Stock Incentive Plan; and "FOR" the ratification of EY as the Company's independent registered public accounting firm for fiscal year 2016.

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

holder of their shares), you will need to obtain a proxy from your brokerage firm, bank, or the stockholder of record holding shares on your behalf.

## Voting by 401(k) Plan Participants

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

## Stockholder Accounts Sharing the Same Last Name and Address; Stockholders Holding Multiple Accounts

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

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

## Stockholder-Initiated Proposals and Nominations for 2016 Annual Meeting

*Proposals submitted under SEC rules for inclusion in the Company's proxy statement.* Stockholder-initiated proposals (other than director nominations) may be eligible for inclusion in our proxy statement for next year's 2016 annual meeting (in

accordance with SEC Rule 14a-8) and for consideration at the 2016 annual meeting. The Company must receive a stockholder proposal no later than May 24, 2016 for the proposal to be eligible for inclusion. Any stockholder interested in submitting a proposal or nomination is advised to contact legal counsel familiar with the detailed securities law requirements for submitting proposals or nominations for inclusion in a company's proxy statement.

### *Proposals and nominations under Company bylaws.*

Stockholders may also submit proposals for consideration and nominations of director candidates for election at the annual meeting by following certain requirements set forth in our bylaws. The current applicable provisions of our bylaws are described below. Proposals will not be eligible for inclusion in the Company's proxy statement for the 2016 annual meeting unless they are submitted in compliance with then applicable SEC rules; however, they will be presented for discussion at the annual meeting if the requirements established by our bylaws for stockholder proposals and nominations have been satisfied. Under current SEC rules, stockholder nominations for directors are not eligible for inclusion in the Company's proxy materials.

Our bylaws establish requirements for stockholder proposals and nominations not included in our proxy statement to be discussed at the annual meeting. Assuming that the 2016 annual meeting takes place at roughly the same date next year as the 2015 annual meeting (and subject to any change in our bylaws – which would be publicly disclosed by the Company – and to any provisions of then-applicable SEC rules), the principal requirements for the 2016 annual meeting would be as follows:

### *For proposals and for nominations:*

- A stockholder of record, or "Stockholder," must submit the proposal or nomination in writing; it must be received by the secretary of the Company no earlier than July 8, 2016, and no later than August 7, 2016;
- For each Stockholder and beneficial owner of Company common stock, or "Beneficial Owner," if any, on behalf of whom the proposal or nomination is being made the Stockholder's notice to the secretary of a proposal or nomination must state:
  - the name and record address of the Stockholder and the Beneficial Owner;
  - the class, series and number of shares of capital stock of the Company that are owned, directly or indirectly, beneficially and of record by the Stockholder and the Beneficial Owner and any affiliates of such parties;
  - the name of each nominee holder of shares of all stock of the Company owned beneficially but not of record by the Stockholder and the Beneficial Owner and any affiliates of such parties;

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- a description of any options, warrants, convertible securities, or similar rights held by the Stockholder, the Beneficial Owner, or any affiliates of such parties with respect to the Company's stock, and any other direct or indirect opportunities to profit or share in any profit derived from any increase or decrease in the value of shares of the Company, including through a general or limited partnership or ownership interest in a general partner ("Derivative Instruments");
- whether and the extent to which any other transaction agreement, arrangement or understanding, including any short position or any borrowing or lending of shares of stock of the Company, has been made by or on behalf of the Stockholder, the Beneficial Owner or any affiliates of such parties, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk or benefit of stock price changes for, such Stockholder, Beneficial Owner or any affiliates of such parties, or to increase or decrease the voting power or pecuniary or economic interest of such Stockholder, Beneficial Owner or any affiliates of such parties, with respect to stock of the Company;
- a description of any proxies, contracts, or other voting arrangements to which the Stockholder or the Beneficial Owner is a party concerning the Company's stock;
- a description of any rights to dividends separated or separable from the underlying shares of the Company to which the Stockholder or the Beneficial Owner are entitled;
- any performance-related fees (other than an asset-based fee) that the Stockholder or the Beneficial Owner is directly or indirectly entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of each such party's immediate family sharing the same household (which information set forth in this paragraph shall be supplemented by such stockholder or such beneficial owner, as the case may be, not later than 10 days after the record date for determining the stockholders entitled to vote at the meeting; provided, that if such date is after the date of the meeting, not later than the day prior to the meeting)
- a representation that the Stockholder giving notice intends to appear in person or by proxy at the annual or special meeting to bring before the meeting such business or to nominate the persons named in the notice; and
- any other information relating to the Stockholder or the Beneficial Owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act, and the rules and regulations pursuant thereto.

Additionally, for *proposals*, the notice must set forth a brief description of such business (including the text of any resolutions proposed for consideration and, if such business includes a proposal to amend the bylaws, the text of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such Stockholder and the Beneficial Owner, if any, on whose behalf the proposal is made.

Additionally, for *nominations*, the notice must:

- set forth, as to each person whom the Stockholder proposes to nominate for election or reelection as a director, all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act;
- set forth the reasons for conducting such nomination at the meeting and any material interest in such nomination of such Stockholder and the Beneficial Owner, if any, on whose behalf the nomination is made (including any anticipated benefit from the nomination of directors to such Stockholder and the Beneficial Owner or any affiliates of such persons);
- set forth, as to each person whom the Stockholder proposes to nominate for election or reelection as a director, the following information:
  - the class, series and number of shares of capital stock of the Company that are owned, directly or indirectly, beneficially and of record by such person or any affiliates of such person;
  - the name of each nominee holder of shares of all stock of the Company owned beneficially but not of record by such person and any affiliates of such person;
  - a description of any options, warrants, convertible securities, or similar rights held by such person or any affiliates of such person with respect to the Company's stock, and any other direct or indirect opportunities to profit or share in any profit derived from any increase or decrease in the value of shares of the Company, including through a general or limited partnership or ownership interest in a general partner ("Derivative Instruments");
  - whether and the extent to which any other transaction agreement, arrangement or understanding, including any short position or any borrowing or lending of shares of stock of the Company, has been made by or on behalf of such person or any affiliates of such person, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk or benefit of stock price changes for, such person or any affiliates of such person, or to increase or decrease the voting power or pecuniary or economic interest of such person or any affiliates of such person, with respect to stock of the Company;
  - a description of (i) all agreements, arrangements, or understandings (whether written or oral) between such

- Stockholder or any affiliates of such party, and any proposed nominee or any affiliates of such proposed nominee and (ii) all agreements, arrangements, or understandings (whether written or oral) between such Stockholder or any affiliates of such party, and any other party or parties (including their names) pursuant to which the nomination(s) are being made by such party, or otherwise relating to the Company or their ownership of capital stock of the Company; and
- a representation that the Stockholder giving notice intends to appear in person or by proxy at the annual meeting to bring before the meeting such business or to nominate the persons named in the notice;
  - be accompanied by a written representation and agreement that such proposed nominee:
    - is not and will not become a party to any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such proposed nominee, if elected as a director of the Company, will act or vote on any issue or question,
    - has disclosed, and will disclose, to the Company any agreement, arrangement or understanding that such proposed nominee has with any person or entity other than the Company with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director of the Company,
    - in such person's individual capacity, would be in compliance with, if elected as a director of the Company, and will comply with and, upon election, execute any requisite documentation pertaining to all applicable publicly disclosed confidentiality, corporate governance, conflict of interest, Regulation FD, code of ethics, and stock ownership and trading policies and guidelines of the

Company, such documentation to include a confidentiality agreement between the Company and such proposed nominee, and

- consents to being named in any proxy statement of the Company, or other filings required to be made by the Company in connection with the solicitation of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, and to serve as a director if elected;
- be accompanied by a statement whether such person, if elected, intends to tender, promptly following such person's election or reelection, an irrevocable conditional resignation effective upon such person's failure to receive the required vote for reelection or to be renominated by the board at the next meeting at which such person would face reelection and upon acceptance of such resignation by the board, in accordance with our corporate governance guidelines.

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

By Order of the Board of Directors,



Sarah A. O'Dowd  
Secretary

Fremont, California

Dated: September 21, 2015

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# Appendices

## Appendix A – Lam 2004 Executive Incentive Plan, as Amended and Restated

**LAM RESEARCH CORPORATION**  
**2004 EXECUTIVE INCENTIVE PLAN**  
**Amended and Restated**  
**Effective as of November [4], 2015**

The Compensation Committee (the “Compensation Committee”) of the Board of Directors of Lam Research Corporation (“Company”) hereby adopts this amended and restated version of the 2004 Executive Incentive Plan (“Plan”), effective as of November [4], 2015.

### **1. Purpose.**

The purpose of the Plan is to provide performance-based incentive compensation in the form of cash payments or stock awards to executive officers and senior management of the Company and any affiliates which might subsequently adopt the Plan. The Plan is intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code (“Section 162(m)").

### **2. Administration.**

The Plan has been established by, and shall be administered by, the Compensation Committee. The Compensation Committee is composed solely of 2 or more outside directors as defined in Section 162(m) and, therefore, qualifies as an independent compensation committee under Section 162(m).

### **3. Stockholder Approval.**

The Plan shall initially be effective if, and only if, the Company’s stockholders, by a majority of the votes considered present or represented and entitled to vote with respect to this matter, approve the material terms of the Plan, specifically, the employees eligible to receive compensation under the Plan; the business criteria on which the performance goals may be based; and the maximum amount of compensation that may be paid to any employee under the Plan in any year. No compensation or award will be paid and vested under the Plan until after this approval is obtained. To the extent necessary for the Plan to qualify as performance-based compensation under Section 162(m) or its successor under then applicable law, these material terms of the Plan shall be disclosed to and reapproved by the stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which stockholders previously approved the material terms of the Plan.

### **4. Participants.**

For each measurement period (which may but need not be a fiscal year), the Compensation Committee will choose, in its sole discretion, those eligible employees who will participate in the Plan during that measurement period and will be eligible to receive payment under the Plan for that measurement period.

- a) Eligible Employees.** Persons who are eligible to participate in the Plan are all members of senior management of the Company and its affiliates. For purposes of the Plan, senior management is defined as any officer who is subject to the reporting rules of Section 16(a) of the Securities Exchange Act of 1934, or who is designated as eligible for the Plan by the Compensation Committee in its discretion.
- b) Employment Criteria.** In general, to participate in the Plan an eligible employee must be continuously employed by the Company or an affiliate for the entire measurement period. The foregoing notwithstanding: (i) if an otherwise eligible employee joins the Company or an affiliate during the measurement period, the Compensation Committee may, in its discretion, add the employee to the Plan for the partial measurement period, and (ii) if the employment of an otherwise eligible employee ends before the end of the measurement period because of death, disability or termination of employment (as determined in the discretion of the Compensation Committee), the employee shall be paid a pro-rata portion of the compensation, if any, that otherwise would have been payable under the Plan based upon the actual achievement of the performance goals applicable during the

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measurement period in which termination of employment occurs, unless the Committee determines in its sole discretion that payment is not appropriate. If a participant is on unpaid leave status for any portion of the measurement period, the Compensation Committee, in its discretion, may reduce the participant's payment on a pro-rata basis.

All determinations under the Plan, including those related to interpretation of the Plan, eligibility, or the payment or pro-ration of any payment shall be made by the Compensation Committee pursuant to the above terms, and those determinations shall be final and binding on all employees.

#### **5. Awards.**

The Compensation Committee shall determine the size and terms of an individual award that can be made in cash or stock. Stock awards may be made from and in such forms permitted under any stock option, equity incentive or similar plan adopted by the Company's Board of Directors and approved by its stockholders. The stock awards shall be granted and/or vested based upon the attainment of performance goals as set forth in Section 6.

#### **6. Business Criteria on Which Performance Goals Shall be Based.**

Payment under the Plan shall be based on the Company's attainment of performance goals based on one or more of the following business criteria: Either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit, affiliate or business segment, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results, or to a designated comparison group, peer index or fund, in each case as specified by the Compensation Committee in the award, and may include actual, growth, or performance-to-target for: (i) cash flow, including free cash flow and operating cash flow; (ii) earnings (including revenue; gross margin; operating profit; earnings before interest, taxes and depreciation; earnings before interest and taxes; earnings before taxes; net earnings; and special or extraordinary items) or earnings per share; (iii) stock or market price; (iv) return on equity or average shareholders' equity; (v) total stockholder value or return; (vi) return on capital; (vii) return on assets or net assets; (viii) return on investment or invested capital; (ix) return on sales; (x) income, net income, operating income, net operating income, net operating profit, controllable profits, pre-tax profit or operating margin (with or without regard to amortization/impairment of goodwill); (xi) market share or applications won; (xii) operational performance, including orders, backlog, deferred revenues, revenue per employee, overhead, days sales outstanding, inventory turns, or other expense levels; (xiii) minimum cash balances; (xiv) asset turns; (xv) product or technological developments; (xvi) customer satisfaction management by objectives; (xvii) individual management by objectives; (xviii) economic value added; and (xix) strategic plan development and implementation (including individually designed goals and objectives that are consistent with the participant's specific duties and responsibilities and that are designed to improve the organizational performance of the Company, an affiliate, or a specific business unit thereof and that are consistent with and derived from the strategic operating plan of the Company, an affiliate or any of their business units for the applicable performance period). The Compensation Committee may measure, as applicable, any of the above on a pro forma, GAAP or non-GAAP basis and may, without limitation, appropriately adjust any evaluation of performance under the business criteria to exclude any of the following events that occurs during a performance period: (A) asset write-downs; (B) litigation or claim judgments or settlements; (C) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (D) accruals for reorganization and restructuring programs; and (E) any extraordinary non-recurring items as described in FASB Accounting Standards Codification 225 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year.

#### **7. Establishing Performance Goals.**

The Compensation Committee shall establish, for each measurement period:

- a) the length of the measurement period;
- b) the specific business criterion or criteria, or combination thereof, that will be used;
- c) the specific performance targets that will be used for the selected business criterion or criteria;
- d) any special adjustments that will be applied in calculating whether the performance targets have been met to factor out extraordinary items;
- e) the formula for calculating compensation eligible for payment under the Plan in relation to the performance targets;
- f) the eligible employees who will participate in the Plan for that measurement period; and
- g) if applicable, the target amounts for each participant for the measurement period.



The Compensation Committee shall make these determinations in writing no later than 90 days after the start of each measurement period, on or before 25% of the measurement period has elapsed, and while the outcome is substantially uncertain. Cash awards paid to any one participant under the Plan in respect of performance goals for any twelve-month measurement period shall not exceed \$15,000,000; provided however that (a) in the event a measurement period of longer or shorter duration than twelve-months, this limit will be increased or decreased, respectively, on a proportionate basis; and (b) deferral of receipt by a participant of payment until a later period of an award amount earned with respect to a measurement period, either through elective deferral by the participant or a deferral included as part of the award structure, shall not affect application of the above cash limit to the participant during the later period. Stock awards or restricted stock unit awards granted to any one participant in any one fiscal year (which may vest over multiple years) under the Plan shall not exceed 600,000 shares of the Company's common stock. The 600,000 shares shall be adjusted in the discretion of the Compensation Committee in the event of stock dividend, stock split, extraordinary cash dividend, or similar recapitalization of the Company.

If an employee joins the Company or an affiliate during the measurement period and becomes an eligible employee pursuant to Paragraph 4(b), and if the employee is a "covered employee" within the meaning of Section 162(m), then to the extent necessary for the Plan to qualify as performance-based compensation under Section 162(m) or its successor under then applicable law, all relevant elements of the performance goals established pursuant to paragraph 6 of this Plan for that employee must be established on or before the date on which 25% of the time from the commencement of employment to the end of the measurement period has elapsed, and the outcome under the performance goals for the measurement period must be substantially uncertain at the time those elements are established.

#### **8. Determination of Attainment of Performance Goals.**

The Compensation Committee shall determine, pursuant to the performance goals and other elements established pursuant to section 6 of the Plan, the amounts to be paid to each employee for each measurement period or the extent to which awards have vested. The Compensation Committee's determinations shall be final and binding on all participants. However, with respect to the Chief Executive Officer and Executive Chairman, the Company's outside directors shall be entitled (but are not required) to review and approve (by majority vote) the Compensation Committee's determination. These determinations must be certified in writing before payments are made, which requirement may be satisfied by approved minutes of the Compensation Committee meeting setting out the determinations made. The Compensation Committee shall not have discretion to increase the amount of an award or accelerate the vesting of an award to any employee who is a "covered employee" within the meaning of Section 162(m) if such action would cause the award or any part thereof to not be deductible under the Internal Revenue Code. The Compensation Committee may exercise negative discretion in a manner consistent with Section 162(m).

#### **9. Amendments.**

The Compensation Committee may not amend or terminate the Plan so as to increase, reduce or eliminate awards under the Plan for any given measurement period retroactively, that is, on any date later than 90 days after the start of the measurement period (although, for the avoidance of doubt, this provision shall not impact the Compensation Committee's ability to use negative discretion). The Compensation Committee may amend or terminate the Plan at any time on a prospective basis and/or in any fashion that does not increase, reduce or eliminate awards retroactively. The foregoing notwithstanding, except as required by applicable law, the Compensation Committee shall not have the power to amend the Plan in any fashion that would cause the Plan to fail to qualify as performance-based compensation with respect to any "covered employee" as defined under Section 162(m) or its successor. Without limiting the generality of the foregoing, to the extent it would cause the Plan to fail to qualify as performance-based compensation with respect to any "covered employee" as defined under Section 162(m) or its successor under then applicable law, the Compensation Committee shall not have the power to change the material terms of the performance goals unless (i) the modified performance goals are established by the Compensation Committee no later than 90 days after the start of the applicable measurement period, on or before 25 percent of the measurement period has elapsed, and while the outcome is substantially uncertain; and (ii) no payments are made under the modified performance goals until after the material terms of the modified performance goals are disclosed to and approved by the Company's stockholders.

#### **10. Time and Form of Payment.**

All payments in respect of awards granted under this Plan shall be made in cash on or before March 15th of the year following the year in which the measurement period ends. The Committee may also provide for payment in the form of shares or share awards as provided in Section 5.

#### **11. Section 409A of the Code.**

Awards under the Plan are intended to comply with Section 409A of the Code and all awards shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued

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thereunder, including without limitation any such regulations or other guidance that may be issued after the effective date of the Plan. Notwithstanding any provision of the Plan or any Award to the contrary, in the event that the Committee determines that any Award may or does not comply with Section 409A of the Code, the Company may adopt such amendments to the Plan and the affected Award (without employee consent) or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Compensation Committee determines are necessary or appropriate to (i) exempt the Plan and any award from the application of Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to Award, or (ii) comply with the requirements of Section 409A of the Code.

Notwithstanding any provisions of this Plan to the contrary, if an employee is a “specified employee” (within the meaning of Section 409A of the Code and determined pursuant to policies adopted by the Company) on his or her date of separation from service and if any portion of an award to be received by the employee upon his or her separation from service would be considered deferred compensation under Section 409A of the Code, amounts of deferred compensation that would otherwise be payable pursuant to this Plan during the six-month period immediately following the employee’s separation from service will instead be paid or made available on the earlier of (i) the first day of the seventh month following the date of the Participant’s separation from service and (ii) the employee’s death. In the event that payments are delayed pursuant to this section, then such payments shall be paid at the time specified in this section without interest. The Company shall consult with the employee in good faith regarding the implementation of the provisions of this section, provided that neither the Company nor any of its employees or representatives shall have any liability to the employee with respect thereto. Any amount under this program that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute a deferred payment for purposes of this Plan. Any amounts scheduled for payment hereunder when they are ordinarily paid, will nonetheless be paid to employee on or before March 15th of the year following the year when the payment is no longer subject to a substantial risk of forfeiture. For purposes of Section 409A of the Code, the right to a series of installment payments shall be treated as a right to a series of separate payments, and references herein to the employee’s termination of employment shall refer to employee’s separation of services with the Company within the meaning of Section 409A of the Code.

#### **12. Rule 10b5-1 Trading Plans; Stock Withholding.**

It is expected that participants under the Plan will establish or modify stock trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, to provide for the sale of Company shares and remit to the Company the proceeds to meet the Company’s withholding obligations in connection with stock awards hereunder. To the extent participants fail to establish or modify 10b5-1 plans in accordance with the foregoing, the Company at its election shall either require the participant to pay cash sufficient to meet the withholding obligation or the Company shall withhold the number of shares under a stock award sufficient (based on the fair market value of the Shares) to meet such withholding obligation.

#### **13. Effect on Employment/Right to Receive.**

Employment with the Company and its affiliates is on an at-will basis. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any participant’s employment or service at any time, with or without cause or notice. Furthermore, the Company expressly reserves the right, which may be exercised at any time and without regard to any measurement period, to terminate any individual’s employment with or without cause, and to treat him or her without regard to the effect which such treatment might have upon him or her as a participant under this Plan. For purposes of this Plan, transfers of employment between the Company and/or its affiliates shall not be deemed a termination of employment. No person shall have the right to be selected to receive a Stock Award under the Plan, or, having been so selected, have the right to receive a future award.

#### **14. Successors.**

All obligations of the Company under the Plan, with respect to awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all the business or assets of the Company.

#### **15. Nontransferability of Awards.**

No award granted under this Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will, by the laws of descent and distribution, or to the extent permitted by the Company’s 1997 Stock Incentive Plan, 1999 Stock Incentive Plan or other equity plan, to the extent an award is payable from such plans. All rights with respect to an award granted under this Plan shall be available during his or her lifetime only to the participant to whom the award under this Plan is granted.

# Appendix B – Lam 2015 Stock Incentive Plan

## LAM RESEARCH CORPORATION 2015 STOCK INCENTIVE PLAN

1. Purposes of the Plan. The purposes of this Stock Incentive Plan are to attract and retain the best available personnel, to provide additional incentives to Employees, Directors and Consultants and to promote the success of the Company's business.
2. Definitions. The following definitions shall apply as used herein and in the individual Award Agreements except as defined otherwise in an individual Award Agreement. In the event a term is separately defined in an individual Award Agreement, such definition shall supersede the definition contained in this Section 2.
  - (a) "Administrator" means the Board or any of the Committees appointed to administer the Plan.
  - (b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act.
  - (c) "Applicable Laws" means the legal requirements relating to the Plan and the Awards under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein.
  - (d) "Assumed" means that pursuant to a Corporate Transaction either (i) the Award is expressly affirmed by the Company or (ii) the contractual obligations represented by the Award are expressly assumed (and not simply by operation of law) by the successor entity or its Parent in connection with the Corporate Transaction with appropriate adjustments to the number and type of securities of the successor entity or its Parent subject to the Award and the exercise or purchase price thereof which at least preserves the compensation element of the Award existing at the time of the Corporate Transaction as determined in accordance with the instruments evidencing the agreement to assume the Award.
  - (e) "Award" means the grant of an Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, or Other Award under the Plan.
  - (f) "Award Agreement" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.
  - (g) "Board" means the Board of Directors of the Company.
  - (h) "Code" means the Internal Revenue Code of 1986, as amended.
  - (i) "Committee" means any committee appointed by the Board or Compensation Committee to administer the Plan or any aspect of the Plan, and may include a committee of Officers or employees of the Company where permitted under Applicable Laws.
  - (j) "Common Stock" means the common stock of the Company.
  - (k) "Company" means Lam Research Corporation, a Delaware corporation, or any successor entity that adopts the Plan in connection with a Corporate Transaction.
  - (l) "Consultant" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.
  - (m) "Continuous Service" means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant is not interrupted or terminated. In jurisdictions requiring notice in advance of an effective termination as an Employee, Director or Consultant, Continuous Service shall be deemed terminated upon the actual cessation of providing services to the Company or a Related Entity notwithstanding any required notice period that must be fulfilled before a termination as an Employee, Director or Consultant can be effective under Applicable Laws. A Grantee's Continuous Service shall be deemed to have terminated either upon an actual termination of Continuous Service or upon the entity for which the Grantee provides services ceasing to be a Related Entity. Continuous Service shall not be considered

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interrupted in the case of (i) any approved leave of absence, unless otherwise provided in the applicable Award Agreement, (ii) transfers among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. For purposes of each Incentive Stock Option granted under the Plan, if such leave exceeds three (3) months, and reemployment upon expiration of such leave is not guaranteed by statute or contract, then the Incentive Stock Option shall be treated as a Nonstatutory Stock Option on the day three (3) months and one (1) day following the expiration of such three (3) month period.

- (n) “Corporate Transaction” means, except as otherwise set forth in an Award Agreement, any of the following transactions:
- (i) a merger or consolidation in which the Company is not the surviving entity or survives only as a subsidiary of another entity whose stockholders did not own all or substantially all of the Common Stock in substantially the same proportions as immediately prior to such transaction (which transaction shall not include a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company or their relative stock holdings and the Awards granted under this Plan are assumed, converted or replaced by the successor corporation, which assumption shall be binding on all participants);
  - (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company, including a liquidation or dissolution of the Company; or
  - (iii) the acquisition, sale, or transfer of more than fifty percent (50%) of the outstanding shares of the Company by tender offer or similar transaction.
- (o) “Covered Employee” means an Employee who is a “covered employee” under Section 162(m)(3) of the Code.
- (p) “Director” means a member of the Board or the board of directors of any Related Entity.
- (q) “Disability” shall be defined by the Administrator with respect to all Awards other than Incentive Stock Options and as defined by Section 22(e) of the Code with respect to Incentive Stock Options.
- (r) “Employee” means any person, including an Officer or Director, who is an employee of the Company or any Related Entity. The payment of a director’s fee by the Company or a Related Entity shall not be sufficient to constitute “employment” by the Company.
- (s) “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- (t) “Fair Market Value” means, that as of any date, the value of Common Stock determined as follows:
- (i) If the Common Stock is listed on one or more established stock exchanges or national market systems, including without limitation The NASDAQ Global Select Market, The NASDAQ Global Market or The NASDAQ Capital Market of The NASDAQ Stock Market LLC, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Common Stock is listed (as determined by the Administrator) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported in The Wall Street Journal or such other source as the Administrator deems reliable;
  - (ii) If the Common Stock is regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such stock as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or
  - (iii) In the absence of an established market for the Common Stock of the type described in (i) and (ii), above, the Fair Market Value thereof shall be determined by the Administrator in good faith.
- (u) “Grantee” means an Employee, Director or Consultant who receives an Award pursuant to an Award Agreement under the Plan.

- (v) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.
- (w) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.
- (x) "Officer" means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (y) "Option" means an option to purchase Shares pursuant to an Award Agreement granted under the Plan.
- (z) "Other Award" means an Award that may be denominated or payable in Shares or cash, including, but not limited to, purchase rights for Shares, the grant of Shares as a bonus, deferred Shares, performance Shares, phantom Shares, and other similar types of Awards, each with the terms and conditions as determined by the Committee pursuant to an Award Agreement.
- (aa) "Outside Director" means a Director who is not an Employee.
- (bb) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (cc) "Performance-Based Compensation" means compensation qualifying as "performance-based compensation" under Section 162(m) of the Code.
- (dd) "Plan" means this 2015 Stock Incentive Plan, as adopted by the Company.
- (ee) "Related Entity" means any Parent, Subsidiary and any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or a Subsidiary holds a substantial ownership interest, directly or indirectly.
- (ff) "Related Entity Disposition" means the sale, distribution or other disposition by the Company, a Parent or a Subsidiary of all or substantially all of the interests of the Company, a Parent or a Subsidiary in any Related Entity effected by a sale, merger or consolidation or other transaction involving that Related Entity or the sale of all or substantially all of the assets of that Related Entity, other than any Related Entity Disposition to the Company, a Parent or a Subsidiary.
- (gg) "Restricted Stock" means Shares issued under the Plan to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions, and other terms and conditions as established by the Administrator.
- (hh) "Restricted Stock Units" means an Award which may be earned in whole or in part upon the passage of time or the attainment of performance criteria established by the Administrator and which may be settled for cash, Shares or other securities or a combination of cash, Shares or other securities as established by the Administrator.
- (ii) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor thereto.
- (jj) "Share" means a share of the Common Stock.
- (kk) "Stock Appreciation Right" means an Award to receive the appreciation in value of a Share from the date of grant until the time of exercise.
- (ll) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

### 3. Stock Subject to the Plan.

- (a) Subject to the provisions as set forth in Section 10, below, the maximum aggregate number of Shares which may be issued pursuant to all Awards is 18,000,000 Shares, plus [ ] Shares (the number of Shares that remained available for grants under the Company's 2007 Stock Incentive Plan (the "2007 Plan") on November 4, 2015. In addition, any Shares that would otherwise return to the 2007 Stock Incentive Plan as a result of the forfeiture, termination or expiration of awards previously granted under the 2007 Plan as of November 4, 2015 (ignoring for this purpose the expiration of the 2007 Plan) shall become available under the Plan. The maximum aggregate number of Shares which may be issued pursuant to Incentive Stock Options is 18,000,000 Shares. Any Shares subject to Awards granted under the Plan other than Options and Stock Appreciation Rights shall be counted against the limit set forth herein as two (2) Shares for every one (1) Share subject to such

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Award (and shall be counted as two (2) Shares for every one (1) Share returned to the Plan pursuant to Section 3(b), below). Options and Stock Appreciation Rights shall be counted against the limit set forth herein as one (1) Share subject to such Award (and shall be counted as one (1) Share returned to the Plan pursuant to Section 3(b), below). The Shares to be issued pursuant to Awards may be authorized, but unissued, or reacquired Common Stock.

(b) Any Shares covered by an Award (or portion of an Award) which is forfeited, canceled or expires (whether voluntarily or involuntarily) shall be deemed not to have been issued for purposes of determining the maximum aggregate number of Shares which may be issued under the Plan. Shares that actually have been issued under the Plan (e.g., Restricted Stock) pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan, except that if unvested Shares are forfeited, or repurchased by the Company at the lower of their original purchase price or their Fair Market Value at the time of repurchase, such Shares shall become available for future grant under the Plan. Notwithstanding anything to the contrary contained herein: (i) Shares tendered or withheld in payment of an Option or Stock Appreciation Right exercise price shall not be returned to the Plan and shall not become available for future issuance under the Plan; and (ii) Shares withheld by the Company to satisfy any Option or Stock Appreciation Right tax withholding obligation shall not be returned to the Plan and shall not become available for future issuance under the Plan. Shares withheld by the Company to satisfy any tax withholding obligation for an Award other than for an Option or Stock Appreciation Right shall be returned to the Plan and shall become available for future issuance under the Plan.

#### 4. Administration of the Plan.

##### (a) Plan Administrator.

(i) Administration with Respect to Directors and Officers. With respect to grants of Awards to Directors or Employees who are also Officers or Directors of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the Applicable Laws and to permit such grants and related transactions under the Plan to be exempt from Section 16(b) of the Exchange Act in accordance with Rule 16b-3. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board.

(ii) Administration With Respect to Consultants and Other Employees. With respect to grants of Awards to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee that shall be constituted in such a manner as to satisfy the Applicable Laws. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the delegating authority.

(iii) Administration With Respect to Covered Employees. Notwithstanding the foregoing, grants of Awards to any Covered Employee intended to qualify as Performance-Based Compensation shall be made only by a Committee (or subcommittee of a Committee) which is comprised solely of two or more Directors eligible to serve on a committee making Awards qualifying as Performance-Based Compensation. In the case of such Awards granted to Covered Employees, references to the "Administrator" or to a "Committee" shall be deemed to be references to such Committee or subcommittee.

(iv) Administration Errors. In the event an Award is granted in a manner inconsistent with the provisions of this subsection (a), such Award shall be presumptively valid as of its grant date to the extent permitted by the Applicable Laws.

(b) Powers of the Administrator. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board or the Compensation Committee, the Administrator shall have the authority, in its discretion:

- (i) to select the Employees, Directors and Consultants to whom Awards may be granted from time to time hereunder;
- (ii) to determine whether and to what extent Awards are granted hereunder;
- (iii) to determine the number of Shares or the amount of other consideration to be covered by each Award granted hereunder;
- (iv) to approve forms of Award Agreements for use under the Plan;
- (v) to determine the terms and conditions of any Award granted hereunder;

(vi) to amend the terms of any outstanding Award granted under the Plan, provided that (A) no modification of any Award, even in the absence of an amendment, suspension, or termination of this Plan, shall impair any existing contractual rights of any Grantee unless (1) the affected Grantee consents to the amendment, suspension, termination, or modification or (2) no consent is required if the Board determines, in its sole and absolute discretion, that the amendment, suspension, termination, or modification: (a) is required or advisable in order for the Company, this Plan or the Award to satisfy Applicable Laws, to meet the requirements of any accounting standard or to avoid any adverse accounting treatment, or (b) in connection with any Corporate Transaction, is in the best interests of the Company or its stockholders; provided, however, that an amendment or modification that may cause an Incentive Stock Option to become a Non-Qualified Stock Option shall not be treated as adversely affecting the rights of the Grantee, (B) the reduction of the exercise price of any Option or Stock Appreciation Right awarded under the Plan shall be subject to stockholder approval, except in connection with an adjustment described in Sections 6(d), 10 or 11, and (C) canceling an Option or Stock Appreciation Right at a time when its exercise price exceeds the Fair Market Value of the underlying Shares, in exchange for another Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Other Award or for cash shall be subject to stockholder approval, unless the cancellation and exchange occurs in connection with an adjustment described in Sections 6(d), 10 or 11;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan, including without limitation, any notice of Award or Award Agreement, granted pursuant to the Plan;

(viii) to grant Awards to Employees, Directors and Consultants employed outside the United States on such terms and conditions different from those specified in the Plan as may, in the judgment of the Administrator, be necessary or desirable to further the purpose of the Plan; and

(ix) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

The express grant in the Plan of any specific power to the Administrator shall not be construed as limiting any power or authority of the Administrator; provided that the Administrator may not exercise any right or power reserved to the Board. Any decision made, or action taken, by the Administrator or in connection with the administration of this Plan shall be final, conclusive and binding on all persons having an interest in the Plan.

5. Eligibility. Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants of the Company and its Subsidiaries and Affiliates. Incentive Stock Options may be granted only to Employees of the Company, a Parent or a Subsidiary. An Employee who has been granted an Award may, if otherwise eligible, be granted additional Awards. Awards may be granted to such Employees who are residing in foreign jurisdictions as the Administrator may determine from time to time.

6. Terms and Conditions of Awards.

(a) Types of Awards. The Administrator is authorized under the Plan to award Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, and Other Awards with an exercise or conversion privilege related to the passage of time or Continuous Service, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions as determined by the Administrator. The Administrator may provide for the payment of dividends or dividend equivalent rights in the terms of an Award, as evidenced in an Award Agreement. Such amounts may be paid in cash or additional Shares and may be subject to the same vesting restrictions as the underlying Award.

(b) Designation of Award. Each Award shall be designated in the Award Agreement. In the case of an Option, the Option shall be designated as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, an Option will qualify as an Incentive Stock Option under the Code only to the extent the \$100,000 dollar limitation of Section 422(d) of the Code is not exceeded. The \$100,000 limitation of Section 422(d) of the Code is calculated based on the aggregate Fair Market Value of the Shares subject to Options designated as Incentive Stock Options which become exercisable for the first time by a Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary of the Company). For purposes of this calculation, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the grant date of the relevant Option. In the event that the Code or the regulations promulgated thereunder are amended after the date the Plan becomes effective to provide for a different limit on the Fair Market Value of the Shares permitted to be subject to Incentive Stock Options, then such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.

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(c) Conditions of Award. Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of, the following: (i) stock or market price; (ii) earnings per share; (iii) total shareholder value or return; (iv) operating margin (with or without regard to amortization/impairment of goodwill); (v) gross margin; (vi) return on equity or average shareholder's equity; (vii) return on assets or net assets; (viii) return on investment; (ix) income; (x) net income; (xi) operating income; (xii) net operating income; (xiii) pre-tax profit; (xiv) cash flow (including free cash flow); (xv) revenue; (xvi) expenses; (xvii) earnings (including special or extraordinary items); (xviii) earnings before taxes; (xix) earnings before interest and taxes; (xx) net earnings; (xxi) earnings before interest, taxes and depreciation; (xxii) economic value added; (xxiii) market share; (xxiv) applications won; (xxv) controllable profits; (xxvi) customer satisfaction management by objectives; (xxvii) individual management by objectives; (xxviii) product or technological developments; (xxix) net income; (xxx) orders (whether new or not); (xxxi) pro forma net income; (xxxii) asset turnover; (xxxiii) minimum cash balances; (xxxiv) return on sales; (xxxv) return on capital or invested capital; (xxxvi) operational performance; (xxxvii) backlog; (xxxviii) deferred revenue; (xxxix) revenue per employee; (xxxx) overhead; (xxxxi) days sales outstanding; (xxxxii) inventory turns; (xxxxiii) operating cash flow; and (xxxxiv) strategic plan development and implementation (including individually designed goals and objectives that are consistent with the Grantee's specific duties and responsibilities and that are designed to improve the organizational performance of the Company, an affiliate, or a specific business unit thereof and that are consistent with and derived from the strategic operating plan of the Company, an affiliate or any of their business units for the applicable performance period). For Awards that are not intended to qualify as Performance-Based Compensation, the performance criteria established by the Administrator may be based on personal management objectives, or other measures of performance selected by the Administrator. The level or levels of performance specified with respect to a performance goal may be GAAP or non-GAAP measures (and may, without limitation, appropriately adjust any evaluation of performance under the business criteria to exclude any of the following events that occurs during a performance period: (A) asset write-downs; (B) litigation or claim judgments or settlements; (C) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (D) accruals for reorganization and restructuring programs; and (E) any extraordinary non-recurring items as described in FASB Accounting Standards Codification 225 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year) as determined by the Administrator and may be established in absolute terms, as objectives relative to performance in prior periods, as an objective compared to the performance of one or more comparable companies or an index covering multiple companies, or otherwise as the Administrator may determine. The performance criteria may be applicable to the Company, Related Entities and/or any individual business units of the Company or any Related Entity, including on a pro forma basis. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement.

(d) Acquisitions and Other Transactions. The Administrator may issue Awards under the Plan in the assumption, conversion, or in substitution, of outstanding awards in connection with the Company or a Related Entity acquiring another entity, an interest in another entity or an additional interest in a Related Entity whether by merger, stock purchase, asset purchase or other form of transaction. Any Shares that are issued in such circumstances will not reduce the number of Shares available for issuance under the Plan or otherwise count against the limits contained in Sections 6(g) or 6(m).

(e) Deferral of Award Payment. The Administrator may establish one or more programs under the Plan to permit selected Grantees the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Grantee to payment or receipt of Shares or other consideration under an Award. The Administrator may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, Shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Administrator deems advisable for the administration of any such deferral program.

(f) Separate Programs. The Administrator may establish one or more separate programs under the Plan for the purpose of issuing particular forms of Awards to one or more classes of Grantees on such terms and conditions as determined by the Administrator from time to time.

(g) Limitations on Awards. The following limitations apply to Awards.

(i) Individual Limit for Options. The maximum number of Shares with respect to which Options and Stock Appreciation Rights may be granted to any Grantee in any fiscal year of the Company shall be 1,000,000 Shares. Notwithstanding anything herein to the contrary, the maximum number of Shares with respect to which Options and Stock Appreciation

Rights may be granted to any Grantee which a new Employee in the fiscal year in which he or she commences employment shall be 2,000,000 Shares. The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 10, below. To the extent required by Section 162(m) of the Code or the regulations thereunder, in applying the foregoing limitations with respect to a Grantee, if any Option or Stock Appreciation Right is canceled, the canceled Option or Stock Appreciation Right shall continue to count against the maximum number of Shares with respect to which Options and Stock Appreciation Rights may be granted to the Grantee.

(ii) Individual Limit for Restricted Stock, Restricted Stock Units, and Other Awards. For awards of Restricted Stock, Restricted Stock Units, and Other Awards intended to be Performance-Based Compensation under Section 162(m) of the Code, the maximum number of Shares with respect to which such Awards may be granted to any Grantee in any fiscal year of the Company shall be 600,000 Shares. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 10, below.

(h) Deferral. If the vesting or receipt of Shares under an Award is deferred to a later date, any amount (whether denominated in Shares or cash) paid in addition to the original number of Shares subject to such Award will not be treated as an increase in the number of Shares subject to the Award if the additional amount is based either on a reasonable rate of interest or on one or more predetermined actual investments such that the amount payable by the Company at the later date will be based on the actual rate of return of a specific investment (including any decrease as well as any increase in the value of an investment).

(i) Early Exercise. The Award Agreement may, but need not, include a provision whereby the Grantee may elect at any time while an Employee, Director or Consultant to exercise any part or all of the Award prior to full vesting of the Award. Any unvested Shares received pursuant to such exercise may be subject to a repurchase right in favor of the Company or a Related Entity or to any other restriction the Administrator determines to be appropriate.

(j) Term of Award. The term of each Award shall be the term stated in the Award Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. However, in the case of an Incentive Stock Option granted to a Grantee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary of the Company, the term of the Incentive Stock Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement. Notwithstanding the foregoing, the specified term of any Award shall not include any period for which the Grantee has elected to defer the receipt of the Shares or cash issuable pursuant to the Award.

(k) Vesting. The Award Agreement will specify the period or periods of Continuous Service necessary before the Award will vest, provided that no Award may vest sooner than the one year anniversary of the date of grant except with respect to five percent (5%) of the maximum aggregate number of Shares that may be issued pursuant to the Plan or as otherwise described in this subsection. An Award may provide for the earlier vesting of such an Award in specific circumstances, including (i) in the event of the death or Disability of a Grantee, or (ii) in the event of a Corporate Transaction or Related Entity Disposition where either (A) within a specified period the Grantee is involuntarily terminated for reasons other than for cause or terminates his or her employment for good reason or (B) such Awards are not assumed or converted into replacement awards as evidenced in the applicable Award Agreement.

(l) Transferability of Awards. Incentive Stock Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Grantee, only by the Grantee. Awards other than Incentive Stock Options shall be transferable (i) by will and by the laws of descent and distribution and (ii) during the lifetime of the Grantee, to the extent and in the manner authorized by the Administrator, but only to the extent such transfers are made to family members, to family trusts, to family controlled entities, to charitable organizations, and pursuant to domestic relations orders or agreements, in all cases without payment for such transfers to the Grantee. Notwithstanding the foregoing, the Grantee may designate one or more beneficiaries of the Grantee's Award in the event of the Grantee's death on a beneficiary designation form provided by the Administrator.

(m) Time of Granting Awards. The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other later date as is determined by the Administrator. Notice of the grant determination shall be given to each Employee, Director or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

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(n) Limitations on Outside Director Awards. The following limitations apply to Awards made to Outside Directors.

(i) Individual Limit for Awards. The maximum number of Shares with respect to which Awards (whether Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, or Other Awards, or any combination thereof) that may be granted to any Outside Director in any fiscal year of the Company shall be 80,000 Shares. The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 10, below.

(ii) Additional Option Limitations. For Options granted to any Outside Director, the term of any Option shall not exceed ten (10) years from the date of grant and the Exercise Price shall not be less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

7. Award Exercise or Purchase Price, Consideration and Taxes.

(a) Exercise or Purchase Price. The exercise or purchase price, if any, for an Award shall be as follows:

(i) In the case of an Incentive Stock Option granted to an Employee who, at the time of the grant of such Incentive Stock Option owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be not less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(ii) In cases other than the case described in the preceding paragraph, the per Share exercise price of an Option or Stock Appreciation Right shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(iii) In the case of Awards intended to qualify as Performance-Based Compensation, the exercise or purchase price, if any, shall be not less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(iv) In the case of a Restricted Stock, Restricted Stock Unit, or Other Award grant, such price, if any, shall be determined by the Administrator.

(v) Notwithstanding the foregoing provisions of this Section 7(a), in the case of an Award issued pursuant to Section 6(d), above, the exercise or purchase price for the Award shall be determined in accordance with the provisions of the relevant instrument evidencing the agreement to issue such Award.

(b) Consideration. Subject to Applicable Laws, the consideration to be paid for the Shares to be issued upon exercise or purchase of an Award including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). In addition to any other types of consideration the Administrator may determine, the Administrator is authorized to accept as consideration for Shares issued under the Plan the following:

(i) cash;

(ii) check;

(iii) surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require (including withholding of Shares otherwise deliverable upon exercise of the Award) which have a Fair Market Value on the date of surrender or attestation equal to the aggregate exercise price of the Shares as to which said Award shall be exercised (but only to the extent that such exercise of the Award would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price unless otherwise determined by the Administrator);

(iv) with respect to Options, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (A) shall provide written (or electronic) instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (B) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction;

(v) with respect to Options, payment through a "net exercise" such that, without the payment of any funds, the Grantee may exercise the Option and receive the net number of Shares equal to (i) the number of Shares as to which the Option is being exercised, multiplied by (ii) a fraction, the numerator of which is the Fair Market Value per Share (on such date as is

determined by the Administrator) less the Exercise Price per Share, and the denominator of which is such Fair Market Value per Share (the number of net Shares to be received shall be rounded down to the nearest whole number of Shares); or

(vi) any combination of the foregoing methods of payment.

The Administrator may at any time or from time to time, by adoption of or by amendment to the standard forms of Award Agreement described in Section 4(b)(iv), or by other means, grant Awards which do not permit all of the foregoing forms of consideration to be used in payment for the Shares or which otherwise restrict one or more forms of consideration.

(c) Taxes. No Shares shall be delivered under the Plan to any Grantee or other person until such Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any foreign, federal, state, or local income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares. Upon exercise or vesting of an Award, the Company shall withhold or collect from Grantee an amount sufficient to satisfy such tax obligations, including, but not limited to, by surrender of the whole number of Shares covered by the Award sufficient to satisfy the minimum applicable tax withholding obligations incident to the exercise or vesting of an Award.

## 8. Exercise of Award.

### (a) Procedure for Exercise; Rights as a Stockholder.

(i) Any Award granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator under the terms of the Plan and specified in the Award Agreement.

(ii) An Award shall be deemed to be exercised when written or electronic notice of such exercise has been given to the Company or Company designated brokerage firm in accordance with the terms of the Award by the person entitled to exercise the Award and full payment for the Shares with respect to which the Award is exercised has been made, including, to the extent selected, use of the broker-dealer sale and remittance procedure to pay the purchase price as provided in Section 7(b)(iv).

### (iii) Exercise of Award Following Termination of Continuous Service.

(A) An Award may not be exercised after the termination date of such Award set forth in the Award Agreement and may be exercised following the termination of a Grantee's Continuous Service only to the extent provided in the Award Agreement.

(B) Where the Award Agreement permits a Grantee to exercise an Award following the termination of the Grantee's Continuous Service for a specified period, the Award shall terminate to the extent not exercised on the last day of the specified period or the last day of the original term of the Award, whichever occurs first.

(C) Any Award designated as an Incentive Stock Option to the extent not exercised within the time permitted by law for the exercise of Incentive Stock Options following the termination of a Grantee's Continuous Service shall convert automatically to a Nonstatutory Stock Option and thereafter shall be exercisable as such to the extent exercisable by its terms for the period specified in the Award Agreement.

## 9. Conditions Upon Issuance of Shares.

(a) If at any time the Administrator determines that the delivery of Shares pursuant to the exercise, vesting or any other provision of an Award is or may be unlawful under Applicable Laws, the vesting or right to exercise an Award or to otherwise receive Shares pursuant to the terms of an Award shall be suspended until the Administrator determines that such delivery is lawful and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Company shall have no obligation to effect any registration or qualification of the Shares under federal, state or applicable non-U.S. laws.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

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10. Adjustments Upon Changes in Capitalization. Subject to any required action by the stockholders of the Company and Section 11 hereof, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, the maximum number of Shares with respect to which Awards may be granted to any Grantee in any fiscal year of the Company, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares, or similar event affecting the Shares, (ii) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (iii) any other transaction with respect to Common Stock including a corporate merger, consolidation, acquisition of property or stock, separation (including a spin-off or other distribution of stock or property), reorganization, liquidation (whether partial or complete) or any similar transaction; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." In the event of any distribution of cash or other assets to stockholders other than a normal cash dividend, the Administrator shall also make such adjustments as provided in this Section 10 or substitute, exchange or grant Awards to effect such adjustments (collectively "adjustments"). Any such adjustments to outstanding Awards will be effected in a manner that precludes the enlargement of rights and benefits under such Awards. In connection with the foregoing adjustments, the Administrator may, in its discretion, prohibit the exercise of Awards or other issuance of Shares, cash or other consideration pursuant to Awards during certain periods of time. Except as the Administrator determines, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Award.

11. Corporate Transactions and Related Entity Dispositions. Except as may be provided in an Award Agreement:

(a) In the event of a Corporate Transaction, any or all outstanding Awards shall be subject to the definitive agreement governing the Corporate Transaction. Such transaction agreement may provide, without limitation and in a manner that is binding on all parties, for (A) the assumption, substitution or replacement with equivalent awards of outstanding Awards (but in each case adjusted to reflect the transaction terms) by the surviving corporation or its parent, (B) continuation of outstanding Awards (but again adjusted to reflect the transaction terms) by the Company if the Company is a surviving corporation, (C) accelerated vesting, or lapse of repurchase rights or forfeiture conditions applicable to, and accelerated expiration or termination of, the outstanding Awards, or (D) settlement of outstanding Awards (including termination thereof) in cash. Except for adjustments to reflect the transaction terms as referenced above or, to the extent any Award or Shares are subject to accelerated vesting or lapse of restrictions approved by the Board or Committee upon specific events or conditions (and then only to the extent such acceleration benefits are reflected in the transaction agreement, the applicable Award Agreement or another written agreement between the participant and the Company), any outstanding Awards that are assumed, substituted, replaced with equivalent awards or continued shall continue following the transaction to be subject to the same vesting or other restrictions that applied to the original Award. The Administrator need not adopt the same rules or apply the same treatment for each Award or Grantee.

(b) Notwithstanding anything herein to the contrary, in the event of a dissolution or liquidation of the Company, to the extent an Award has not been exercised or the Shares subject thereto have not been issued in full prior to the earlier of the completion of the transaction or the applicable expiration date of the Award, then outstanding Awards shall terminate immediately prior to the transaction.

(c) Any Incentive Stock Option accelerated under this Section 11 in connection with a Corporate Transaction or Related Entity Disposition shall remain exercisable as an Incentive Stock Option under the Code only to the extent the \$100,000 dollar limitation of Section 422(d) of the Code is not exceeded. To the extent such dollar limitation is exceeded, the accelerated excess portion of such Option shall be exercisable as a Nonstatutory Stock Option.

12. Effective Date and Term of Plan. The Plan shall become effective on November [4], 2015. It shall continue in effect for a term of ten (10) years from its effective date unless sooner terminated. Subject to Section 17, below, and Applicable Laws, Awards may be granted under the Plan upon its becoming effective.

13. Amendment, Suspension or Termination of the Plan.

(a) The Board may at any time amend, suspend or terminate the Plan; provided, however, that no such amendment shall be made without the approval of the Company's stockholders to the extent such approval is required by Applicable Laws, or if such amendment would:

(i) lessen the stockholder approval requirements of Section 4(b)(vi) or this Section 13(a), which, except in connection with the adjustments described in Sections 6(d), 10 or 11, are intended to prevent (A) the repricing of "underwater"

Options and Stock Appreciation Rights by reducing the exercise price of an Option or Stock Appreciation Right and (B) the cancellation of an Option or Stock Appreciation Right in exchange for cash, another Award, or an Option or Stock Appreciation Right with a lower exercise price;

- (ii) increase the benefits accrued to participants under the Plan;
- (iii) increase the number of securities which may be issued under the Plan; or
- (iv) modify the requirements for participation in the Plan.

(b) No Award may be granted during any suspension of the Plan or after termination of the Plan.

(c) No suspension or termination of the Plan (including termination of the Plan under Section 11 above) shall adversely affect any rights under Awards already granted to a Grantee which, regardless of any suspension or termination, shall continue to be subject to the terms of the Plan.

#### 14. Reservation of Shares.

(a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

(b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. No Effect on Terms of Employment/Consulting Relationship. The Plan shall not confer upon any Grantee any right with respect to the Grantee's Continuous Service, nor shall it interfere in any way with his or her right or the right of the Company or any Related Entity to terminate the Grantee's Continuous Service at any time, with or without cause.

16. No Effect on Retirement and Other Benefit Plans. Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Pension Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

17. Stockholder Approval. The grant of Incentive Stock Options under the Plan shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted excluding Incentive Stock Options issued in substitution for outstanding Incentive Stock Options pursuant to Section 424(a) of the Code. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws.

18. Plan History. On May 14, 2015, the Board adopted, and on August 26, 2015, the Board amended, the Plan, effective as of the date of stockholder approval, which occurred on November [4], 2015 (the "Effective Date"). No grants will be made on or after the Effective Date under the 2007 Plan or the Company's 2011 Stock Incentive Plan (as amended), except that outstanding awards under these predecessor plans will continue unaffected following the Effective Date and will continue to be subject to the terms of the applicable predecessor plan regardless of the termination of such predecessor plan with regard to new grants.

19. Unfunded Obligation. Grantees shall have the status of general unsecured creditors of the Company. Any amounts payable to Grantees pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974, as amended. Neither the Company nor any Related Entity shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Grantee account shall not create or constitute a trust or fiduciary relationship between the Administrator, the Company or any Related Entity and a Grantee, or otherwise create any vested or beneficial interest in any Grantee or the Grantee's creditors in any assets of the Company or a Related Entity. The Grantees shall have no claim against the Company or any Related Entity for any changes in the value of any assets that may be invested or reinvested by the Company with respect to the Plan.

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20. Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

21. Non-exclusivity of the Plan. Neither the adoption of the Plan by the Board, the submission of the Plan to the stockholders of the Company for approval, nor any provision of the Plan will be construed as creating any limitations on the power of the Board or the Compensation Committee to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of Awards otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

22. Non-U.S. Grantees. In order to facilitate the making of any grant or combination of grants under this Plan, the Committee may provide for such special terms for awards to Grantees who are foreign nationals or who are employed by the Company or any Subsidiary or Affiliate outside of the United States of America or who provide services to the Company under an agreement with a foreign nation or agency, as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to or amendments, restatements or alternative versions of this Plan (including, without limitation, sub-plans) as it may consider necessary or appropriate for such purposes, without thereby affecting the terms of this Plan as in effect for any other purpose, and the Secretary or other appropriate officer of the Company may certify any such document as having been approved and adopted in the same manner as this Plan. No such special terms, supplements, amendments or restatements, however, will include any provisions that are inconsistent with the terms of this Plan as then in effect unless this Plan could have been amended to eliminate such inconsistency without further approval by the stockholders of the Company.

23. Recoupment/Clawback Provisions. Awards issued under the Plan shall be subject to any applicable recoupment or clawback policy adopted by the Company.

24. Compliance with Section 409A of the Code.

(a) To the extent applicable, it is intended that this Plan and any grants made hereunder comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to the Grantees. This Plan and any grants made hereunder will be administered in a manner consistent with this intent. Any reference in this Plan to Section 409A of the Code will also include any regulations or any other formal guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

(b) Neither a Grantee nor any of a Grantee's creditors or beneficiaries will have the right to subject any deferred compensation (within the meaning of Section 409A of the Code) payable under this Plan and grants hereunder to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A of the Code, any deferred compensation (within the meaning of Section 409A of the Code) payable to a Grantee or for a Grantee's benefit under this Plan and grants hereunder may not be reduced by, or offset against, any amount owing by a Grantee to the Company or any of its Subsidiaries.

(c) If, at the time of a Grantee's separation from service (within the meaning of Section 409A of the Code), (i) the Grantee will be a specified employee (within the meaning of Section 409A of the Code and using the identification methodology selected by the Company from time to time) and (ii) the Company makes a good faith determination that an amount payable hereunder constitutes deferred compensation (within the meaning of Section 409A of the Code) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A of the Code in order to avoid taxes or penalties under Section 409A of the Code, then the Company will not pay such amount on the otherwise scheduled payment date but will instead pay it, without interest, on the tenth business day of the seventh month after such separation from service.

(d) Notwithstanding any provision of this Plan and grants hereunder to the contrary, in light of the uncertainty with respect to the proper application of Section 409A of the Code, the Company reserves the right to make amendments to this Plan and grants hereunder as the Company deems necessary or desirable to avoid the imposition of taxes or penalties under Section 409A of the Code. In any case, a Grantee will be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on a Grantee or for a Grantee's account in connection with this Plan and grants hereunder (including any taxes and penalties under Section 409A of the Code), and neither the Company nor any of its Subsidiaries or Affiliates will have any obligation to indemnify or otherwise hold a Grantee harmless from any or all of such taxes or penalties.

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

FORM 10-K

(Mark One)

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

For the fiscal year ended June 28, 2015

OR

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

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

Commission file number: 0-12933

LAM RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-2634797

(I.R.S. Employer Identification No.)

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

94538  
(Zip code)

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

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

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

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

None  
(Title of class)

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

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

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

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

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

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

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

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

The aggregate market value of the Registrant's Common Stock, \$0.001 par value, held by non-affiliates of the Registrant, as of December 28, 2014, the last business day of the most recently completed second fiscal quarter with respect to the fiscal year covered by this Form 10-K, was \$8,838,403,605. Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock has been excluded from this computation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination of such status for other purposes.

As of August 5, 2015, the Registrant had 158,186,976 outstanding shares of Common Stock.

Documents Incorporated by Reference

Parts of the Registrant's Proxy Statement for the Annual Meeting of Stockholders expected to be held on or about November 4, 2015 are incorporated by reference into Part III of this Form 10-K. (However, the Reports of the Audit Committee and Compensation Committee are expressly not incorporated by reference herein.)

**LAM RESEARCH CORPORATION**  
**2015 ANNUAL REPORT ON FORM 10-K**  
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## PART I

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

*With the exception of historical facts, the statements contained in this discussion are forward-looking statements, which are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Certain, but not all, of the forward-looking statements in this report are specifically identified as forward-looking, by use of phrases and words such as “believe,” “anticipate,” “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 and opportunities 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, international sales, revenue and operating expenses generally; management’s plans and objectives for our current and future operations and business focus; volatility in our quarterly results; customer requirements and our ability to satisfy those requirements; customer capital spending and their demand for our products, and the reliability of indicators of change in customer spending and demand; hedging transactions; our ability to defend our market share and to gain new market share; our ability to obtain and qualify alternative sources of supply; factors that affect our tax rates; 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 expenditures and joint development relationships with customers, suppliers or other industry members; outsourced activities; the role of component suppliers in our business; the resources invested to comply with all evolving standards and the impact of such efforts; 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 intention to pay quarterly dividends and the amounts thereof, if any ; our intention to repurchase our shares; 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 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 quarterly reports on Form 10-Q for the quarters ended September 28, 2014, December 28, 2014 and March 29, 2015, 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 do not undertake any obligation to release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances that occur after the date of this report or to reflect the occurrence or effect of anticipated or unanticipated events.*

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

Incorporated in 1980, Lam Research Corporation (“Lam Research,” “Lam,” “we,” “our,” or the “Company”) is a Delaware corporation, headquartered in Fremont, California. We maintain a network of facilities throughout Asia, Europe, and the United States of America in order to meet the needs of our dynamic customer base.

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

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

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

We are a global supplier of innovative wafer fabrication equipment and services to the semiconductor industry. We design, manufacture, market, refurbish, and service semiconductor processing systems that are used in the fabrication of integrated circuits ("ICs"). Our market-leading products are designed to help our customers build smaller, faster, more powerful, and more power-efficient devices that are used in a variety of electronic products, including cell phones, tablets, computers, storage devices, and networking equipment.

Our customer base includes leading semiconductor memory, foundry, and integrated device manufacturers ("IDMs") that make products such as DRAM, NAND memory, and logic devices. Semiconductor manufacturing, our customers' business, involves the complete fabrication of multiple die or ICs on a wafer. This involves the repetition of a set of core processes and can require hundreds of individual steps. On a silicon wafer, a tiny, intricate pattern is precisely replicated across the wafer surface to create identical miniature devices, where features can be 1,000 times smaller than a grain of sand. Fabricating these devices requires highly sophisticated process technologies and precision control at the atomic scale. Along with meeting technical requirements, wafer processing equipment must deliver high productivity and be cost-effective.

We leverage our expertise in semiconductor device processing to develop enabling technology and productivity solutions that typically benefit our customers through lower defect rates, enhanced yields, faster processing time, and/or reduced cost. We offer a broad portfolio of complementary products that are used in several areas of the semiconductor manufacturing process flow, including thin film deposition, plasma etch, and single-wafer clean. These processes, which are repeated numerous times during the wafer fabrication cycle, are utilized to manufacture every type of semiconductor device.

Our products are used primarily in front-end wafer processing, which involves the steps that create the active components of a device (transistor, capacitor) and their wiring (interconnect). Market demand for ever-smaller IC designs is driving the development of and migration to fabrication strategies such as three-dimensional ("3D") architectures and multiple patterning. We also address processes for back-end wafer-level packaging ("WLP"), which is an alternative to traditional wire bonding and can offer a smaller form factor, increased interconnect speed and bandwidth, and lower power consumption, among other benefits. In addition, our products are well-suited for related markets that rely on semiconductor processes and require production-proven manufacturing capability, such as micro-electromechanical systems ("MEMS").

Our high-productivity thin film deposition systems form a device's sub-microscopic layers of conducting (metal) or insulating (dielectric) materials. We are the market leader in plasma etch, a highly critical process step that selectively removes materials from the wafer to create the features and patterns of a device. Our wet spin clean and plasma-based bevel clean products remove particles, residues and film from the wafer surface before or after adjacent processes.

Our Customer Support Business Group ("CSBG") provides products and services to maximize installed equipment performance and operational efficiency. We offer a broad range of services to deliver value throughout the lifecycle of our equipment, including customer service, spares, upgrades, and refurbishment of our deposition, etch, and clean products. Many of the technical advances that we introduce in our newest products are also available as upgrades, which provide customers with a cost-effective strategy for extending the performance and capabilities of their existing wafer fabrication lines. CSBG also offers refurbished and newly built previous-generation (legacy) equipment for those applications that do not require the most advanced wafer processing capability.

## Products

### *Thin Film Deposition*

In leading-edge semiconductor designs, metal deposition processes face significant scaling and integration challenges. For advanced copper interconnect structures, challenges for electrochemical deposition (“ECD”) include providing complete, void-free fill of high aspect ratio (“HAR”) structures with low defectivity and high productivity. Electroplating of copper and other metals is also used for through-silicon via (“TSV”) and WLP applications, such as forming conductive bumps and redistribution layers (“RDLs”). These applications require excellent within-wafer uniformity at high plating rates, minimal defects, and cost competitiveness. For tungsten chemical vapor deposition (“CVD”)/atomic layer deposition (“ALD”) processes, key requirements are minimizing contact resistance to meet lower power consumption requirements and achieving void-free fill for narrow nanoscale structures. In addition, good barrier step coverage at reduced thicknesses relative to physical vapor deposition/CVD barrier films is also needed to improve contact fill and reduce resistivity.

In dielectric deposition, high-productivity, high-quality films are needed for a number of critical process steps. For example, atomic layer deposition (“ALD”) is required for front-end-of-line (“FEOL”) transistor structures and back-end-of-line (“BEOL”) self-aligned multiple patterning schemes to deposit highly conformal and uniform films. Plasma-enhanced CVD (“PECVD”) is used to deposit multiple dielectric films, including the alternating mold stack layers used in 3D NAND memory. This application requires excellent thickness uniformity along with exceptional stress control. For gapfill deposition, achieving defect-free fills while maintaining high throughput is essential. Preferred approaches are to use high-density plasma CVD (“HDP-CVD”) either as a complete gapfill solution or as a cap over other gapfill technologies to enhance process control and mitigate integration risks. Lastly, innovative post-deposition film treatments such as ultraviolet thermal processing (“UVTP”) are being used to improve low-k film integrity and increase strain in nitride layers for improved device performance.

#### *Copper Metal Films — SABRE® Product Family*

The SABRE ECD product family is the industry’s productivity-leading platform for copper damascene manufacturing. Electrofill® technology provides high-throughput, void-free fill with superior defect density performance for advanced technology nodes. SABRE chemistry packages provide leading-edge fill performance for the lowest defectivity, widest process window, and highest rates of bottom-up growth to fill the most challenging HAR features. System capabilities include deposition of copper directly on various liner materials, important for next-generation metallization schemes. The number of yielding ICs per wafer is optimized by increasing the usable die area through industry-leading process edge exclusion engineering. Applications include copper deposition for both advanced logic and memory interconnect. We also offer the SABRE 3D system to address TSV and WLP applications, such as copper pillar, RDL, high-density fanout, underbump metallization, bumping, and microbumps used in post-TSV processing.

#### *Tungsten Metal Films — ALTUS® Product Family*

Our market-leading ALTUS systems deposit highly conformal atomic layer films for advanced tungsten metallization applications. The patented Multi-Station Sequential Deposition (“MSSD”) architecture enables a nucleation layer to be formed using Pulsed Nucleation Layer (“PNL”) technology and bulk CVD fill to be performed in the same chamber (“in situ”). PNL, our ALD technology, is used in the deposition of tungsten nitride films to achieve high step coverage with reduced thickness relative to conventional barrier films. PNL is also used to reduce thickness and alter CVD bulk fill grain growth, lowering the overall resistivity of thin tungsten films. The advanced ExtremeFill CVD tungsten technology provides extendibility to fill the most challenging structures at advanced technology nodes. Applications include tungsten plug and via fill, 3D NAND wordlines, low-stress composite interconnects, and tungsten nitride barrier for via and contact metallization.

#### *PECVD Dielectric Films — VECTOR® Product Family*

The VECTOR family of PECVD and ALD systems delivers superior thin film quality, wafer-to-wafer uniformity, productivity, and low cost of ownership. The MSSD architecture enables industry-leading performance with both sequential and parallel processing to provide flexibility for a range of applications. VECTOR products include

specialized systems for logic and memory applications with multiple platform options. VECTOR Express offers a small footprint with four processing stations. VECTOR Excel is a modular tool for advanced technology nodes where pre-and-post film deposition treatments are needed. VECTOR Extreme accommodates up to 12 processing stations for high-throughput applications. VECTOR Q accommodates up to 16 processing stations for depositing multi-stack films. Applications include deposition of oxides, nitrides, and carbides for hardmasks; multiple patterning films; anti-reflective layers; multi-layer stack films; and diffusion barriers.

#### *Gapfill Dielectric Films — SPEED® Product Family*

The SPEED HDP-CVD products provide void-free gapfill of high-quality dielectric films with superior throughput and reliability. The unique source design provides excellent particle performance, while the ability to customize the deposition and in situ etching profile ensures best-of-breed across-wafer thickness and gapfill uniformity. Together, the chamber and plasma source designs allow large batch sizes between cleans and faster cleans to deliver superior throughput. Broad process flexibility is available on the same platform, without requiring major hardware changes. Applications include shallow trench isolation (“STI”), pre-metal dielectrics, inter-layer dielectrics, inter-metal dielectrics, and passivation layers.

#### *Film Treatment — SOLA® Product Family*

The SOLA UVTP product family is used for treatment of BEOL low-k dielectric films and FEOL silicon nitride strained films. The systems incorporate a proprietary treatment process that modifies the physical characteristics of a previously deposited film through exposure to ultraviolet light, gases and vapors, and heat. The Multi-Station Sequential Processing (“MSSP”) architecture allows independent control of temperature, wavelength, and intensity at each station of the wafer path. This enables delivery of best-in-class film properties, within-wafer and wafer-to-wafer uniformity, and productivity.

#### **Plasma Etch**

As the semiconductor industry continues to improve device performance and shrink critical feature sizes, plasma etch faces multiple challenges. These include processing smaller features, new materials, new transistor structures, increasingly complex film stacks, and ever higher aspect ratio structures. For conductor etch, requirements include delivering atomic-scale control for etching FinFET/3D gate transistors, multi-film stacks for high-k/metal gate structures, and multiple patterning structures. Dielectric etch processes must be able to maintain etch profiles on increasingly HAR structures such as in 3D NAND devices, etch new multi-layer photoresist materials and amorphous carbon hardmasks, and avoid damaging fragile low-k materials. In emerging 3D ICs, TSVs are now used to provide interconnect capability for die-to-die and wafer-to-wafer stacking. Critical factors for TSV are etching a variety of materials in situ, as well as being able to use both conventional and special techniques for deep silicon etching. For all etch processes, it is important to provide excellent profile control and across-wafer uniformity while maintaining high productivity and cost efficiency.

#### *Conductor Etch — Kiyō® Product Family, Versys® Metal Product Family*

The Kiyō product family delivers high-performance, high-productivity, low-risk solutions for conductor etch applications. Superior uniformity, uniformity control, and repeatability are enabled by a symmetrical chamber design, leading electrostatic chuck technology, and independent tuning features. The Kiyō products deliver high productivity with low defectivity on multi-film stacks, enabled by in situ etch capability, continuous plasma, and advanced Waferless Autoclean technology. In addition, Kiyō systems can be configured to perform atomic layer etching (“ALE”), which delivers atomic-scale variability control to enable next-generation wafer processing. Applications include FinFET gate, fin definition, STI, high-k/metal gate and multiple patterning. The Versys metal product family provides a flexible platform for BEOL metal etch processes. Symmetrical chamber design and independent tuning features provide critical dimension, profile uniformity, and uniformity control for metal hardmask applications. The products’ proprietary chamber cleaning technology ensures high availability, high

yield, and exceptional process repeatability for BEOL processing. Applications include metal hardmask, multiple patterning, high-density aluminum line, and aluminum pad.

#### *Dielectric Etch — Flex™ Product Family*

The Flex product family offers differentiated technologies and application-focused capabilities for critical dielectric etch applications. Exceptional uniformity, repeatability, and tunability are enabled by a unique multi-frequency, small-volume, confined plasma design. The systems deliver high productivity with low defectivity, enabled by in situ multi-step etch and continuous plasma capability. Low-risk, cost-effective upgrades provide evolutionary product transitions that extend product life and maximize return on investment. Applications include low-k and ultra low-k dual damascene, self-aligned contacts, capacitor cell, mask open, 3D NAND HAR hole, trench, and contact.

#### *TSV Etch — Syndion® Product Family*

Based on our production-proven conductor etch products, the Syndion TSV etch family provides low-risk, flexible solutions to address multiple TSV etch applications. The Syndion products provide a low cost of ownership due to high etch rates, excellent repeatability, and in situ etching of multiple materials in the TSV stack (silicon, dielectrics, conducting films). The systems support both conventional single-step etch and rapidly alternating process (“RAP”). High process flexibility, superior profile control, and excellent uniformity enable successful TSV implementation for a variety of complementary metal-oxide-semiconductor 3D IC and image sensor applications.

#### **Single-Wafer Clean**

Wafer cleaning is a critical function that must be repeated many times during the semiconductor manufacturing process, from device fabrication through packaging. As device geometries shrink and new materials are introduced, the number of cleaning steps continues to grow. Furthermore, each step has different selectivity and defectivity requirements that add to manufacturing complexity. For next-generation devices, fragile structures need to be cleaned without causing damage. In addition, cleaning steps that target the bevel region can help eliminate the potential source of yield-limiting defects at the wafer’s edge, as well as, increase the number of good die at the wafer’s edge to improve yield.

#### *Wet Clean — EOS®, Da Vinci®, DV-Prime®, SP Series*

The single-wafer spin technology pioneered the industry transition from batch to single-wafer wet processing. These production-proven spin wet clean systems provide the productivity and flexibility needed for both high-volume manufacturing and leading-edge development across multiple technology nodes and for all device types. The products deliver excellent process uniformity across the wafer, wafer-to-wafer, and lot-to-lot. Proprietary technologies enhance damage-free particle removal and enable wafer drying without pattern collapse or watermarks. Offering the latest in dilute chemistry and solvent systems, the products meet defectivity and material integrity requirements. Applications include particle, polymer, and residue removal; photoresist removal; and wafer backside/bevel cleaning and film removal. Our wet clean systems are also used for multiple wet etch and clean applications for WLP, including silicon substrate thinning, wafer stress relief, underbump metallization etch, and photoresist removal.

#### *Plasma Bevel Clean — Coronus® Product Family*

The Coronus plasma-based bevel clean products enhance die yield by removing particles, residues and unwanted films from the wafer’s edge that can impact the device area. The system combines the ability of plasma to selectively remove a wide variety of materials with a proprietary confinement technology that protects the die area. High system uptime and throughput, excellent process repeatability, and efficient in situ removal of multi-material film stacks and residues ensure high productivity for increased wafer output. Applications include post-etch, pre- and post-deposition, pre-lithography, and metal film removal to prevent arcing during plasma etch or deposition steps. It is also the most cost-effective bevel clean product that removes carbon-rich residues and films.

## Legacy Products

For applications that do not require the most advanced wafer processing capability, semiconductor manufacturers can benefit from the proven performance of previous-generation products to increase their production capacity at a reduced economic investment. Purchasing through an original equipment manufacturer (“OEM”) like us minimizes the risks of unexpected costs and unpredictable time to production that are typically associated with used systems purchases. To meet semiconductor manufacturers’ needs for high-performance, maximum-predictability, and low-risk equipment, we provide refurbished and newly built legacy products. Our products also provide production-worthy, cost-effective solutions for the MEMS and light emitting diode (“LED”) markets.

## Products Table

Market	Process/Application	Technology	Products
Thin Film Deposition	Metal Films	ECD (Copper & Other) CVD, ALD (Tungsten)	SABRE® family ALTUS® family
	Dielectric Films	PECVD, ALD Gapfill HDP-CVD	VECTOR® family SPEED® family
	Film Treatment	UVTP	SOLA® family
Plasma Etch	Conductor Etch	Reactive Ion Etch	Kiyo® family, Versys® Metal family
	Dielectric Etch	Reactive Ion Etch	Flex™ family
	TSV Etch	Deep Reactive Ion Etch	Syndion® family
Single-Wafer Clean	Wafer Cleaning	Wet Clean	EOS®, Da Vinci®, DV-Prime®, SP Series
	Bevel Cleaning	Dry Plasma Clean	Coronus® family

## Fiscal Periods Presented

All references to fiscal years apply to our fiscal years, which ended June 28, 2015, June 29, 2014, and June 30, 2013.

## Research and Development

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

Our R&D expenses during fiscal years 2015, 2014, and 2013 were \$825.2 million, \$716.5 million, and \$683.7 million, respectively. The majority of R&D spending over the past three years has been targeted at deposition, etch, single-wafer clean, and other semiconductor manufacturing products. We believe current challenges for customers at various points in the semiconductor manufacturing process present opportunities for us.

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

## Marketing, Sales, and Service

Our marketing, sales, and service efforts are focused on building long-term relationships with our customers and targeting product and service solutions designed to meet their needs. These efforts are supported by a team of product marketing and sales professionals as well as equipment and process engineers who work closely with

individual customers to develop solutions for their wafer processing needs. We maintain ongoing service relationships with our customers and have an extensive network of service engineers in place throughout the United States, Europe, Taiwan, Korea, Japan, China, and Southeast Asia. We believe that comprehensive support programs and close working relationships with customers are essential to maintaining high customer satisfaction and our competitiveness in the marketplace.

We provide standard warranties for our systems. The warranty provides that systems shall be free from defects in material and workmanship and conform to agreed-upon specifications. The warranty is limited to repair of the defect or replacement with new or like-new equivalent goods and is valid when the buyer provides prompt notification within the warranty period of the claimed defect or non-conformity and also makes the items available for inspection and repair. We also offer extended warranty packages to our customers to purchase as desired.

#### *International Sales*

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

	<b>Year Ended</b>		
	<b>June 28, 2015</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
<b>(in thousands)</b>			
<b>Revenue:</b>			
Korea	\$1,406,617	\$1,127,406	\$ 603,821
Taiwan	1,084,239	1,049,214	1,026,548
United States	890,891	622,022	734,324
China	661,094	623,408	319,282
Japan	623,575	634,131	368,095
Europe	314,546	303,730	292,432
Southeast Asia	278,350	247,398	254,414
Total revenue	<u>\$5,259,312</u>	<u>\$4,607,309</u>	<u>\$3,598,916</u>

#### *Long-Lived Assets*

Refer to Note 19 of our Consolidated Financial Statements, included in Item 8 of this report, for information concerning the geographic locations of long-lived assets.

#### **Customers**

Our customers include all of the world's leading semiconductor manufacturers. Customers continue to establish joint ventures, alliances and licensing arrangements which have the potential to positively or negatively impact our competitive position and market opportunities. In fiscal year 2015, three customers, Micron Technology, Inc., Samsung Electronics Company, Ltd., and Taiwan Semiconductor Manufacturing Company, Ltd., each individually represented greater than 10% of total revenues. In fiscal years 2014 and 2013, the customers individually representing greater than 10% of total assets were Samsung Electronics Company, Ltd., SK Hynix Inc., and Taiwan Semiconductor Manufacturing Company, Ltd.

A material reduction in orders from our customers could adversely affect our results of operations and projected financial condition. Our business depends upon the expenditures of semiconductor manufacturers. Semiconductor manufacturers' businesses, in turn, depend on many factors, including their economic capability, the current and anticipated market demand for ICs and the availability of equipment capacity to support that demand.

### **Backlog**

In general, we schedule production of our systems based upon our customers' delivery requirements and forecasts. In order for a system to be included in our backlog, the following conditions must be met: 1) we have received a written customer request that has been accepted, 2) we have an agreement on prices and product specifications, and 3) there is a scheduled shipment within the next 12 months. In order for spares and services to be included in our backlog, the following conditions must be met: 1) we have received a written customer request that has been accepted and 2) delivery of products or provision of services is anticipated within the next 12 months. Where specific spare parts and customer service purchase contracts do not contain discrete delivery dates, we use volume estimates at the contract price and over the contract period, not to exceed 12 months, in calculating backlog amounts. Our policy is to revise our backlog for order cancellations and to make adjustments to reflect, among other things, changes in spares volume estimates and customer delivery date changes. As of June 28, 2015 and June 29, 2014, our backlog was \$880 million and \$866 million, respectively. Generally, orders for our products and services are subject to cancellation by our customers with limited penalties. Because some orders are received and shipped in the same quarter and because customers may change delivery dates and cancel orders, our backlog at any particular date is not necessarily indicative of business volumes or actual revenue levels for succeeding periods.

### **Manufacturing**

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

We have agreements with third parties to outsource certain aspects of our manufacturing, production warehousing, and logistics functions. We believe that these outsourcing contracts provide us more flexibility to scale our operations up or down in a timely and cost effective manner, enabling us to respond quickly to any changes in our business. We believe that we have selected reputable providers and have secured their performance on terms documented in written contracts. However, it is possible that one or more of these providers could fail to perform as we expect, and such failure could have an adverse impact on our business and have a negative effect on our operating results and financial condition. Overall, we believe we have effective mechanisms to manage risks associated with our outsourcing relationships. Refer to Note 16 of our Consolidated Financial Statements, included in Item 8 of this report, for further information concerning our outsourcing commitments.

Certain components and sub-assemblies that we include in our products may only be obtained from a single supplier. We believe that, in many cases, we could obtain and qualify alternative sources to supply these products. Nevertheless, any prolonged inability to obtain these components could have an adverse effect on our operating results and could unfavorably impact our customer relationships.

### **Environmental Matters**

We are subject to a variety of governmental regulations related to the management of hazardous materials that we use in our business operations. We are currently not aware of any pending notices of violations, fines, lawsuits, or investigations arising from environmental matters that would have a material effect on our business. We believe that we are generally in compliance with these regulations and that we have obtained (or will obtain or are otherwise addressing) all necessary environmental permits to conduct our business. Nevertheless, the failure to comply with present or future regulations could result in fines being imposed on us, require us to suspend production or cease operations or cause our customers to not accept our products. These regulations could

require us to alter our current operations, to acquire significant additional equipment, or to incur substantial other expenses to comply with environmental regulations. Our failure to control the use, sale, transport, or disposal of hazardous substances could subject us to future liabilities.

## **Employees**

As of August 6, 2015, we had approximately 7,300 regular employees globally. Although we have employment-related agreements with a number of key employees, these agreements do not guarantee continued service. Each of our employees is required to comply with our policies relating to maintaining the confidentiality of our non-public information.

In the semiconductor and semiconductor equipment industries, competition for highly skilled employees is intense. Our future success depends, to a significant extent, upon our continued ability to attract and retain qualified employees particularly in the R&D and customer support functions.

## **Competition**

The semiconductor capital equipment industry is characterized by rapid change and is highly competitive throughout the world. To compete effectively, we invest significant financial resources to continue to strengthen and enhance our product and services portfolio and to maintain customer service and support locations globally. Semiconductor manufacturers evaluate capital equipment suppliers in many areas, including, but not limited to, process performance, productivity, defect control, customer support, and overall cost of ownership, which can be affected by many factors such as equipment design, reliability, software advancements, and similar factors. Our ability to succeed in the marketplace depends upon our ability to maintain existing products and introduce product enhancements and new products that meet customer requirements on a timely basis. In addition, semiconductor manufacturers must make a substantial investment to qualify and integrate new capital equipment into semiconductor production lines. As a result, once a semiconductor manufacturer has selected a particular supplier's equipment and qualified it for production, the manufacturer generally maintains that selection for that specific production application and technology node as long as the supplier's products demonstrate performance to specification in the installed base. Accordingly, we may experience difficulty in selling to a given customer if that customer has qualified a competitor's equipment. We must also continue to meet the expectations of our installed base of customers through the delivery of high-quality and cost-efficient spare parts in the presence of third-party spare parts provider competition.

We face significant competition with all of our products and services. Our primary competitor in the tungsten CVD, PECVD, HDP-CVD, ECD and PVD markets, is Applied Materials, Inc. In the PECVD market, we also compete against ASM International and Wonik IPS. In the etch market, our primary competitors are Tokyo Electron, Ltd. and Applied Materials, Inc. Our primary competitors in the single-wafer wet clean market are Screen Holding Co., Ltd.; Semes Co., Ltd.; and Tokyo Electron, Ltd.

Certain of our existing and potential competitors have substantially greater financial resources and larger engineering, manufacturing, marketing, and customer service and support organizations than we do. In addition, we face competition from a number of emerging companies in the industry. We expect our competitors to continue to improve the design and performance of their current products and processes, to introduce new products and processes with enhanced price/performance characteristics and to provide more comprehensive offerings of products. If our competitors make acquisitions or enter into strategic relationships with leading semiconductor manufacturers, or other entities, covering products similar to those we sell, our ability to sell our products to those customers could be adversely affected. There can be no assurance that we will continue to compete successfully in the future.

## **Patents and Licenses**

Our policy is to seek patents on inventions relating to new or enhanced products and processes developed as part of our ongoing research, engineering, manufacturing, and support activities. We currently hold a number of United States and foreign patents covering various aspects of our products and processes. We believe that the duration

of our patents generally exceeds the useful life of the technologies and processes disclosed and claimed in them. Our patents, which cover material aspects of our past and present core products, have current durations ranging from approximately one to twenty years. We believe that, although the patents we own and may obtain in the future will be of value, they alone will not determine our success. Our success depends principally upon our research and development, engineering, marketing, support, and delivery skills. However, in the absence of patent protection, we may be vulnerable to competitors who attempt to imitate our products, manufacturing techniques, and processes. In addition, other companies and inventors may receive patents that contain claims applicable or similar to our products and processes. The sale of products covered by patents of others could require licenses that may not be available on terms acceptable to us, or at all. For further discussion of legal matters, see Item 3, “Legal Proceedings,” of this report.

## EXECUTIVE OFFICERS OF THE COMPANY

As of August 13, 2015, the executive officers of Lam Research were as follows:

Name	Age	Title
Martin B. Anstice	48	President and Chief Executive Officer
Timothy M. Archer	48	Executive Vice President and Chief Operating Officer
Douglas R. Bettinger	48	Executive Vice President, Chief Financial Officer and Chief Accounting Officer
Richard A. Gottscho	63	Executive Vice President, Global Products Group
Sarah A. O’Dowd	65	Senior Vice President, Chief Legal Officer and Secretary

Martin B. Anstice has been our President and Chief Executive Officer since January 2012. Mr. Anstice joined us in April 2001 as Senior Director, Operations Controller; was promoted to the position of Managing Director and Corporate Controller in May 2002; and was promoted to Group Vice President, Chief Financial Officer, and Chief Accounting Officer in June 2004. He was appointed Executive Vice President and Chief Operating Officer in September 2008 and President in December 2010. Prior to joining us, he held various finance positions from 1988 to 1999 at Raychem Corporation, a global materials science company. Subsequent to the acquisition of Raychem by Tyco International, a global provider of engineered electronic components, network solutions and wireless systems, he assumed responsibilities supporting mergers and acquisition activities of Tyco Electronics. Mr. Anstice is an Associate member of the Institute of Chartered Management Accountants in the United Kingdom

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

Douglas R. Bettinger is our Executive Vice President, Chief Financial Officer. Prior to joining us in March 2013, he served as Senior Vice President and Chief Financial Officer of Avago Technologies from August 2008 to February 2013. From 2007 to 2008, he served as Vice President of Finance and Corporate Controller at Xilinx, Inc., and from 2004 to 2007, he was Chief Financial Officer at 24/7 Customer, a privately held company. He worked at Intel Corporation from 1993 to 2004, where he held several senior-level finance and manufacturing operations positions, including Corporate Planning and Reporting Controller and Malaysia Site Operations Controller. Mr. Bettinger earned a M.B.A. degree in finance from the University of Michigan and has a B.S. degree in economics from the University of Wisconsin-Madison.

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

Sarah A. O'Dowd is our Senior Vice President, Chief Legal Officer and Secretary. She joined us in September 2008 as Group Vice President and Chief Legal Officer, responsible for general legal matters, intellectual property and ethics & compliance. In addition to her Legal function, in April 2009 she was appointed Vice President of Human Resources and served in this dual capacity from April 2009 through May 2012. Prior to joining us, she was Vice President and General Counsel for FibroGen, Inc. from February 2007 until September 2008. Until February 2007, Ms. O'Dowd was a shareholder in the law firm of Heller Ehrman LLP for more than 20 years, practicing in the areas of corporate securities, governance and mergers and acquisitions for a variety of clients, principally publicly traded high technology companies. She served in a variety of leadership and management roles at Heller Ehrman, including Managing Partner of the Silicon Valley and San Diego offices, member of the firm's Policy Committee and, as head of the firm's business practice groups, a member of the firm's Executive Committee. Ms. O'Dowd earned her J.D. and M.A. in communications from Stanford Law School and Stanford University, respectively, and her B.A. degree in mathematics from Immaculata College.

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

In addition to the other information in this Annual Report on Form 10-K ("2015 Form 10-K"), the following risk factors should be carefully considered in evaluating the Company and its business because such factors may significantly impact our business, operating results, and financial condition. As a result of these risk factors, as well as other risks discussed in our other SEC filings, our actual results could differ materially from those projected in any forward-looking statements. No priority or significance is intended, nor should be attached, to the order in which the risk factors appear.

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

Despite the recent reduction in cyclical, the semiconductor capital equipment industry has historically been characterized by rapid changes in demand. The industry environment has moved toward an environment more characterized by variability across segments and customers accentuated by consolidation within the industry. Variability in our customers' business plans may lead to changes in demand for our equipment and services which could negatively impact our results. The variability in our customers' investments during any particular period is dependent on several factors including but not limited to electronics demand, economic conditions (both general and in the semiconductor and electronics industries), industry supply and demand, prices for semiconductors, and our customers' ability to develop and manufacture increasingly complex and costly semiconductor devices. The changes in demand may require 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 ICs. With the consolidation of customers within the industry the semiconductor capital equipment market may experience rapid changes in demand driven both by changes in the market generally and the plans and requirements of particular customers. 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;
- an increase in reserves on accounts receivable due to our customers' inability to pay us;
- an increase in reserves on inventory balances due to excess or obsolete inventory as a result of our inability to sell such inventory;
- valuation allowances on deferred tax assets;
- restructuring charges;
- asset impairments including the potential impairment of goodwill and other intangible assets;
- a decline in the value of our investments;
- exposure to claims from our suppliers for payment on inventory that is ordered in anticipation of customer purchases that do not come to fruition;
- a decline in the value of certain facilities we lease to less than our residual value guarantee with the lessor; and
- challenges maintaining reliable and uninterrupted sources of supply.

Fluctuating levels of investment by semiconductor manufacturers may materially affect our aggregate shipments, revenues, operating results, and earnings. 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 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 Quarterly Revenues and Operating Results Are Variable***

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;
- Consolidation of the customer base may result in the investment decisions of one customer or market to having a significant effect on demand for our products or services;
- procurement shortages;
- the failure of our suppliers or outsource providers to perform their obligations in a manner consistent with our expectations;
- manufacturing difficulties;
- customer cancellations or delays in shipments, installations, and/or customer acceptances;
- the extent that customers continue to purchase and use our products and services in their business;
- our customers' reuse of existing and installed products, to the extent that such reuse decreases their need to purchase new products or services;
- 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 or man-made 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
- convertibility and the dilutive impact of our Convertible Notes and related warrants on our earnings per share.

### ***We May Incur Impairments to Goodwill or Long-Lived Assets***

We review our long-lived assets, including goodwill and other intangible assets, for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Negative industry or economic trends, including reduced market prices of our Common Stock, reduced estimates of future cash flows, disruptions to our business, slower growth rates, or lack of growth in our relevant business units, could lead to impairment charges against our long-lived assets, including goodwill and other intangible assets. If, in any period, our stock price decreases to the point where our fair value, as determined by our market capitalization, is less than the book value of our assets, this could also indicate a potential impairment, and we may be required to record an impairment charge in that period, which could adversely affect our result of operations. During the 2015 fiscal year, our goodwill and long-lived asset impairment assessments resulted in an impairment charge of \$79.4 million associated with the single-wafer clean reporting unit and \$9.8 million related to an intangible asset.

Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. We operate in a highly competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis indicates potential impairment to goodwill in one or more of our business units, we may be required to record additional charges to earnings in our financial statements, which could negatively affect our results of operations.

***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 issuance of our 2020 and 2025 Senior Notes, our 2016 and 2018 Convertible Notes, and the assumption of the 2041 Convertible Notes in connection with our acquisition of Novellus Systems, Inc. (collectively the “Notes”), we have a greater amount of debt than we have maintained in the past. Furthermore, in March 2014, we entered into an unsecured credit agreement providing us with the ability to borrow up to \$300 million (and, under certain circumstances, to increase such availability to \$500 million). We may, in the future, decide to borrow amounts under this facility, or to enter into additional debt arrangements.

In addition, we have entered, and in the future may enter, into derivative instrument arrangements to hedge against the variability of cash flows due to changes in the benchmark interest rate of fixed rate debt. We could be exposed to losses in the event of nonperformance by the counterparties to our derivative instruments.

Our maintenance of higher levels of indebtedness could have adverse consequences including:

- increased risk associated with any inability 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 Convertible Notes and resulting exercise of the related warrants may cause dilution to our stockholders and to our earnings per share. The number of shares of our Common Stock into which the Convertible Notes are convertible for and the related warrants are exercisable for may be adjusted from time to time, including increases in such rates as a result of dividends that we pay to our stockholders. Upon conversion of any Convertible Notes, we will deliver cash in the amount of the principal amount of the Convertible Notes and, with respect to any excess conversion value greater than the principal amount of the Convertible Notes, shares of our Common Stock, which would result in dilution to our stockholders. 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 or through share repurchases. Prior to the maturity of the Convertible Notes, if the price of our Common Stock exceeds the conversion price, U.S. generally accepted accounting principles require 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 Convertible Notes as a more attractive means of equity participation in our company and also by hedging activity that may develop involving our Common Stock by holders of the Convertible Notes.

### ***Our Credit Agreements Contain Covenant Restrictions That May Limit Our Ability To Operate Our Business.***

We may be unable to respond to changes in business and economic conditions, engage in transactions that might otherwise be beneficial to us, or obtain additional financing, because our debt agreements contain, and any of our other future similar agreements may contain, covenant restrictions that limit our ability to, among other things:

- incur additional debt, assume obligations in connection with letters of credit, or issue guarantees;
- create liens;
- enter into transactions with our affiliates;
- sell certain assets; and
- merge or consolidate with any person.

Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. In addition, our failure to comply with these covenants could result in a default under the Senior Notes, the Convertible Notes or our other debt, which could permit the holders to accelerate such debt. If any of our debt is accelerated, we may not have sufficient funds available to repay such debt, which could materially and negatively affect our financial condition and results of operation.

### ***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, cash flows, collections, and profitability. For the years ended June 29, 2015, June 28, 2014 and June 30, 2013, three customers accounted for 51%, 52%, and 45% of total revenue, respectively. 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 decreased pricing; increased costs and/or lower margins for us; compliance to specific environmental, social and corporate governance standards; and limitations on our ability to share jointly developed technology with others. Similarly, significant portions of our credit risk may, at any given time, be concentrated among a limited number of customers, so that the failure of even one of these key customers to pay its obligations to us could significantly impact our financial results.

### ***We Depend on Creating New Products and Processes and Enhancing Existing 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 or existing products have reliability, quality, design, or safety 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 products successfully, or products that we introduce may fail in the marketplace. For over 25 years the primary driver of technology advancement in the semiconductor industry has been to shrink the lithography that prints the circuit design on semiconductor chips. That driver could be approaching its technological limit, leading semiconductor manufacturers to investigate more complex changes in multiple technologies in an effort to continue technology development. In the face of uncertainty on which technology solutions will become successful, we will need to focus our efforts on developing the technology changes that are ultimately successful in supporting our customer requirements. Our failure to develop and offer the correct technology solutions in a timely manner with productive and cost-effective products could adversely affect our business in a material way. 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 and enhance existing 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 and certain jointly developed technologies may be subject to restrictions on our ability to share that technology with other customers, which could limit our market for products incorporating those technologies. 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 our addressable markets or could increase the relative size of markets in which we either do not compete or have relatively low market share.

#### ***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. System sales constitute a significant portion of our total revenue. Our systems are priced up to approximately \$9 million per system, and our revenues in any given quarter are dependent upon customer 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, and, in the longer term, the continued market acceptance of these products is 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 customers or customers within certain markets;
- an improved version of products being offered by a competitor in the markets 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. 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 semiconductors 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 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. In certain instances, this could work to our disadvantage if a competitor's tools or equipment become the standard equipment for such functions or processes. Additional outcomes of such consolidation may include our customers re-evaluating their future supplier relationships to consider other competitors' products and/or gaining additional influence over the pricing of products and the control of intellectual property.

Similarly, our customers may partner 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. Even if they select our equipment, the institutions and the customers that follow their lead could impose conditions on acceptance of that equipment, such as adherence to standards and requirements or limitations on how we license our proprietary rights that increase our costs or require us to take on greater risk. These actions could adversely impact our market share and financial results.

***We Depend On a Limited Number of Key Suppliers and Outsource Providers, and We Run the Risk That They Might Not Perform as We Expect***

Outsource providers and component suppliers 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. These providers and suppliers might suffer financial setbacks, be acquired by third parties, become subject to exclusivity arrangements that preclude further business with us or be unable to meet our requirements or expectation due to their independent business decisions, or *force majeure* events that could interrupt or impair their continued ability to perform as we expect.

Although we attempt to select reputable providers and suppliers, and we attempt to secure their performance on terms documented in written contracts, it is possible that one or more of these providers or suppliers could fail to perform as we expect, or fail to secure or protect intellectual property rights, and such failure could have an adverse impact on our business. In some cases, the requirements of our business mandate that we obtain certain components and sub-assemblies included in our products from a single supplier or a limited group of suppliers. Where practical, we endeavor to establish alternative sources to mitigate the risk that the failure of any single provider or supplier will adversely affect our business, but this is not feasible in all circumstances. There is therefore a risk that a prolonged inability to obtain certain components or secure key services could impair our ability to manage operations, ship products and generate revenues, which could adversely affect our operating results and damage our customer relationships.

***We Face Risks Related to the Disruption of Our Primary Manufacturing Facilities***

Our manufacturing facilities are concentrated in just a few locations. These locations are subject to disruption for a variety of reasons such as natural or man-made disasters, terrorist activities, disruptions of our information technology resources, and utility interruptions. Such disruptions may cause delays in shipping our products which could result in the loss of business or customer trust, adversely affecting our business and 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, especially if customers are more focused on tool re-use than in the past. 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 and with increased consolidation efforts in our industry we may face increasing competitive pressures. 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, including 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 offer customers a more comprehensive array of products and to therefore achieve additional relative success in the semiconductor equipment industry. These competitors may deeply discount or give away products similar to those that we sell, challenging or even exceeding our ability to make similar accommodations and threatening our ability to sell those products. We also face competition from our own customers, who in some instances have established affiliated entities that manufacture equipment similar to ours. For these reasons, we may fail to continue to compete successfully worldwide.

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

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

Non-U.S. sales accounted for approximately 83%, 86%, and 80% of total revenue in fiscal years 2015, 2014, and 2013, respectively. We expect that international sales will continue to account for a substantial majority 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;
- tariffs and other barriers;
- global or national economic and political conditions;
- 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. and international trade restrictions and sanctions, anti-bribery, anti-corruption, environmental, and labor laws;
- fluctuations in interest and foreign currency exchange rates;
- our ability to repatriate cash in a tax-efficient manner;
- the need for technical support resources in different locations; and
- our ability to secure and retain qualified people, and effectively manage people, in all necessary locations for the successful operation of our business.

Certain international sales depend on our ability to obtain export licenses from the U.S. government. Our failure or inability to obtain such licenses would substantially limit our markets and severely restrict our revenues. Many of

the challenges noted above are applicable in China, which is a fast developing market for the semiconductor equipment industry and therefore an area of potential significant growth for our business. As the business volume between China and the rest of the world grows, there is inherent risk, based on the complex relationships among China, Taiwan, Japan, South Korea, and the United States, that political and diplomatic influences might lead to trade disruptions. This would adversely affect our business with China, Taiwan, Japan, and/or South Korea and perhaps the entire Asia Pacific region. A significant trade disruption in these areas could have a materially adverse impact on our future revenue and profits. In addition, there are risks that the Chinese government may, among other things: insist on the use of local suppliers; compel companies that do business in China to partner with local companies to design and supply equipment on a local basis, requiring the transfer of intellectual property rights and/or local manufacturing; and provide special incentives to government-backed local customers to buy from local competitors, even if their products are inferior to ours; all of which could adversely impact our revenues and margins.

We are exposed to potentially adverse 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 primarily related to revenues denominated in Japanese yen and expenses denominated in euro and Korean won. Currently, we enter into foreign currency forward contracts to minimize the short-term impact of the foreign currency exchange rate fluctuations on certain foreign currency monetary assets and liabilities; primarily third party accounts receivables, accounts payables and intercompany receivables and payables. In addition, we hedge certain anticipated foreign currency cash flows, primarily anticipated revenues denominated in Japanese yen and euro-denominated and Korean won-denominated expenses. 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 monetary 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.

The magnitude of our overseas business also affects where our cash is generated. Certain uses of cash, such as share repurchases, payment of dividends or the repayment of our notes, can usually only be made with on-shore cash balances. Since the majority of our cash is generated outside of the United States, this may impact certain business decisions and adversely affect business outcomes.

#### ***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 outsourced providers or third parties such as vendors and contractors. Many of these information systems and outsourced service providers, including certain hosted software applications that we use for confidential data storage, employ “cloud computing” technology for such storage (which refers to an information technology hosting and delivery system in which data is not stored within the user’s physical infrastructure but instead is delivered to and consumed by the user as an Internet-based service). All of 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 and/or sensitive information stored on these information systems or transmitted to or from cloud storage could be intentionally or unintentionally compromised, lost and/or stolen. While we have implemented security procedures, such as virus protection software and emergency recovery processes, to mitigate the outlined risks with respect to information systems that are under our control, they 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 proprietary or confidential information, could unfavorably impact the timely and efficient operation of our business.

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

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

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

We are subject to a variety of domestic and international governmental regulations related to the handling, discharge, and disposal of toxic, volatile, or otherwise hazardous chemicals. Failure to comply with present or future environmental 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, acquire significant additional equipment, incur substantial other expenses to comply with environmental regulations, or take other actions. Any failure to comply with regulations governing the use, handling, sale, transport or disposal of hazardous substances could subject us to future liabilities that may adversely affect our operating results, financial condition and ability to operate our business.

***If We Choose to Acquire or Dispose of Businesses, 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 inability or inadequacy 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
- convertibility and dilutive impacts of our Convertible 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 price of and markets for semiconductors. These and other 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 persons send us notices alleging that our products infringe their patent or other intellectual property rights. In addition, law enforcement authorities may seek criminal charges relating to intellectual property or other issues. We also face risks of claims arising from commercial and other relationships. In addition, our bylaws and other indemnity obligations provide that we will indemnify officers and directors against losses that they may incur in legal proceedings resulting from their service to us. 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 U.S. and foreign patents and pending patent applications, and we keep certain information, processes and techniques as trade secrets. However, other parties may challenge or attempt to invalidate or circumvent any patents the United States or foreign governments issue to us, these governments may fail to issue patents for pending applications, or we may lose trade secret protection over valuable information due to the intentional or unintentional actions or omissions of third parties, of ours or even our own employees. Additionally, intellectual property litigation can be expensive and time-consuming and even when patents are issued or trade secret processes are followed, 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, pending patent applications or trade secrets may be narrower than we expect or, in fact, provide no competitive advantages. Moreover, because we determine the jurisdictions in which to file patents at the time of filing, we may not have adequate protection in the future based on such previous decisions. Any of these circumstances could have a material adverse impact on our business.

### ***We Are Exposed to Various Risks from Our Regulatory Environment***

We are subject to various risks related to (i) new, different, inconsistent or even conflicting laws, rules and regulations that may be enacted by legislative bodies and/or regulatory agencies in the countries that we operate; (ii) disagreements or disputes between national or regional regulatory agencies related to international trade; and (iii) the interpretation and application of laws, rules and regulations. As a public company with global operations, we are subject to the laws of multiple jurisdictions and the rules and regulations of various governing bodies, including those related to financial and other disclosures, corporate governance, privacy, anti-corruption, such as the Foreign Corrupt Practices Act and other local laws prohibiting corrupt payments to governmental officials, conflict minerals or other social responsibility legislation, and antitrust regulations, among others. Each of these laws, rules and regulations imposes costs on our business, including financial costs and potential diversion of our management's attention associated with compliance, and may present risks to our business, including potential fines, restrictions on our actions, and reputational damage if we are unable to fully comply.

To maintain high standards of corporate governance and public disclosure, we intend to invest all reasonably necessary resources to comply with all evolving standards. Changes in or ambiguous interpretations of laws, regulations and standards may create uncertainty regarding compliance matters. Efforts to comply with new and changing regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management's time and attention from revenue generating activities to compliance activities. If we are found by a court or regulatory agency not to be in compliance with the laws and regulations, our business, financial condition, and results of operations could be adversely affected.

***There Can Be No Assurance That We Will Continue To Declare Cash Dividends Or Repurchase Our Shares At All Or In Any Particular Amounts.***

Our Board of Directors has declared quarterly dividends since April 2014. Our intent to continue to pay quarterly dividends and to repurchase our shares is subject to capital availability and, in the case of dividends, periodic determinations by our Board of Directors that cash dividends are in the best interest of our stockholders and are in compliance with all laws and agreements applicable to the declaration and payment of cash dividends by us. Future dividends and share repurchases may also be affected by, among other factors: our views on potential future capital requirements for investments in acquisitions and the funding of our research and development; legal risks; stock repurchase programs; changes in federal and state income tax laws or corporate laws; contractual restrictions, such as financial or operating covenants in our debt arrangements; and changes to our business model. Our dividend payments and share repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends or repurchase shares at all or in any particular amounts. A reduction or suspension in our dividend payments or share repurchase activity could have a negative effect on our stock price.

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

None.

**Item 2. *Properties***

Our executive offices and principal operating and R&D facilities are located in Fremont, Livermore, and San Jose, California, Tualatin, Oregon, and Villach, Austria. The majority of the Fremont and Livermore facilities are held under operating leases expiring in 2020 and 2021, in addition the Villach facilities are held under capital leases expiring in 2016. The company owns one property in Fremont, as well as, the San Jose and Tualatin facilities. Our Fremont, Livermore, and Villach leases generally include options to renew or purchase the facilities. In addition, we lease or own properties for our service, technical support and sales personnel throughout the United States, Europe, Taiwan, Korea, Japan, China, and Southeast Asia, and lease or own manufacturing facilities located in Illinois, Ohio, Germany, and Korea. Our facilities lease obligations are subject to periodic increases. We believe that our existing facilities are well-maintained and in good operating condition.

**Item 3. *Legal Proceedings***

While the Company is not currently party to any legal proceedings that it believes material, the Company is either a defendant or plaintiff in various actions that have arisen from time to time in the normal course of business, including intellectual property claims. The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, the Company believes that the amount of any such additional loss would be immaterial to the Company's business, financial condition, and results of operations.

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

Not applicable.

## PART II

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

#### *Stock Information*

Our Common Stock is traded on the NASDAQ Global Select Market under the symbol LRCX. As of August 5, 2015, we had 479 stockholders of record. In fiscal year 2015 we paid our stockholders a quarterly dividend of \$0.18 per share. In May 2015, we announced an increase in our quarterly dividend to \$0.30 per share, which is payable in the first quarter of fiscal year 2016. The table below sets forth the high and low prices of our Common Stock as reported by The NASDAQ Stock Market LLC, for the period indicated:

	2015	
	High	Low
First Quarter	\$77.35	\$66.70
Second Quarter	\$85.70	\$65.78
Third Quarter	\$84.49	\$69.92
Fourth Quarter	\$84.39	\$69.07

	2014	
	High	Low
First Quarter	\$52.31	\$44.11
Second Quarter	\$55.48	\$49.54
Third Quarter	\$57.16	\$48.45
Fourth Quarter	\$67.85	\$50.54

#### *Repurchase of Company Shares*

On April 29, 2014, the Board of Directors authorized the repurchase of up to \$850 million of Common Stock. 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 on-shore cash and on-shore cash generation. 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.

As part of our share repurchase program, we may from time-to-time enter into structured share repurchase arrangements with financial institutions using general corporate funds.

During the three months ended September 28, 2014, we entered into a collared accelerated share repurchase ("ASR") transaction under a master repurchase arrangement. Under the ASR, we made an up-front cash payment of \$250 million, in exchange for an initial delivery of approximately 3.2 million shares of our Common Stock.

The number of shares repurchased was based on the volume-weighted average price ("VWAP") of the Common Stock during the term of the ASR minus a pre-determined discount set at inception of the ASR, subject to collar provisions that provided a minimum and maximum number of shares that we could repurchase under the agreements. The minimum and maximum thresholds for the transaction were established based on the average of the VWAP prices for the Common Stock during an initial hedge period. The ASR was scheduled to end at any time on or after October 8, 2014 and on or before December 8, 2014.

The counterparty designated October 9, 2014 as the termination date, at which time we settled the ASR. Approximately 0.3 million shares were received at final settlement, which represented a weighted-average share price of approximately \$72.90 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 (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Amount Available Under Repurchase Program
(in thousands, except per share data)				
Amount available at June 29, 2014				\$830,895
Quarter ending September 28, 2014	3,938	\$69.86	3,818	\$534,174
Quarter ending December 28, 2014	1,158	\$78.10	869	\$488,480
Quarter ended March 29, 2015	1,550	\$78.57	1,434	\$376,002
March 30, 2015 - April 26, 2015	192	\$73.51	178	\$362,898
April 27, 2015 - May 24, 2015	478	\$77.33	264	\$342,377
May 25, 2015 - June 28, 2015	321	\$82.66	312	\$316,587
Total	<u>7,637</u>	\$75.04	<u>6,875</u>	\$316,587

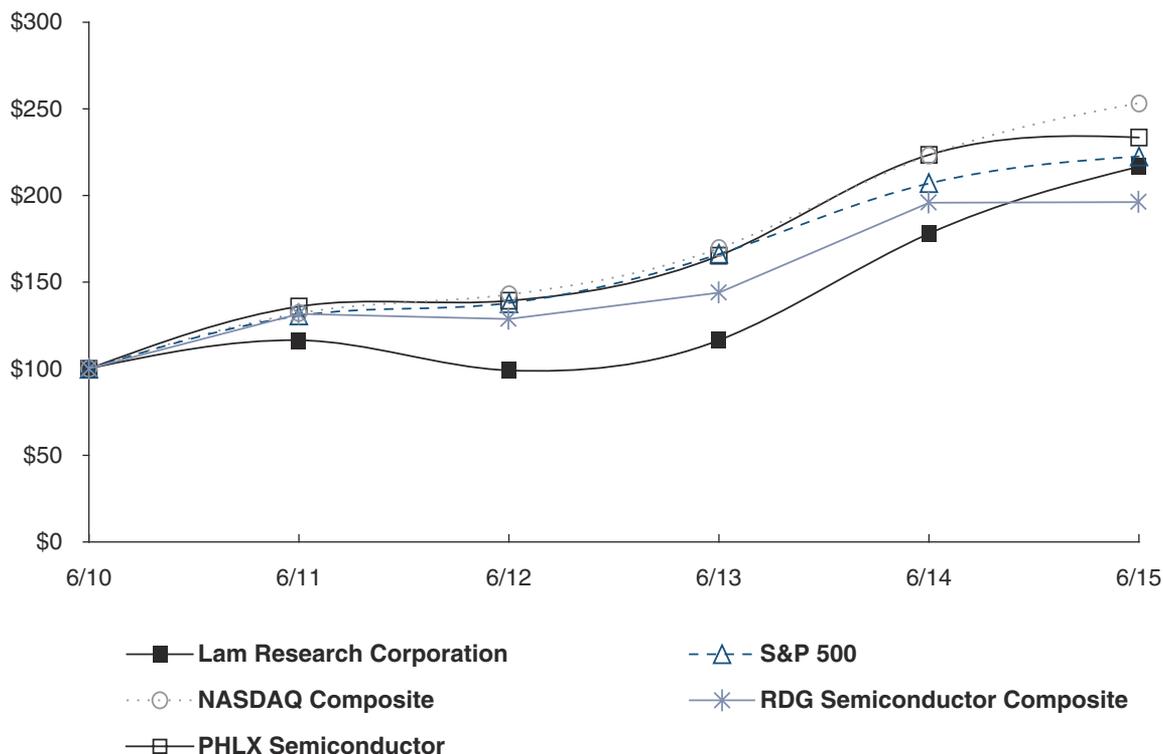
- (1) In addition to shares repurchased under the Board-authorized repurchase program shown above, we acquired 761,883 shares at a total cost of \$58.8 million which we withheld through net share settlements to cover minimum tax withholding obligations upon the vesting of restricted stock unit awards granted under our equity compensation plans. The shares retained through these net share settlements are not a part of the Board-authorized repurchase program but instead are authorized under our equity compensation plans.
- (2) Average price paid per share excludes accelerated share repurchases for which cost was incurred during the September 2014 quarter, but that did not settle until the December 2014 quarter. See the section above for details regarding average price associated with these transactions.

### Cumulative 5-year Return

The graph below compares Lam Research Corporation's cumulative 5-year total shareholder return on Common Stock with the cumulative total returns of the NASDAQ Composite index, the Research Data Group, Incorporated ("RDG") Semiconductor Composite index, and the Philadelphia ("PHLX") Semiconductor Sector Index. The graph tracks the performance of a \$100 investment in our Common Stock and in each of the indices (with the reinvestment of all dividends) from June 30, 2010 to June 30, 2015.

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

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



\*\$100 invested on 6/30/10 in stock or index, including reinvestment of dividends.  
Fiscal year ending June 30.

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	6/10	6/11	6/12	6/13	6/14	6/15
<b>Lam Research Corporation</b>	<b>100.00</b>	<b>116.34</b>	<b>99.16</b>	<b>116.50</b>	<b>178.05</b>	<b>216.61</b>
<b>NASDAQ Composite</b>	<b>100.00</b>	<b>132.14</b>	<b>142.90</b>	<b>169.55</b>	<b>223.20</b>	<b>253.21</b>
<b>S&amp;P 500</b>	<b>100.00</b>	<b>130.69</b>	<b>137.81</b>	<b>166.20</b>	<b>207.10</b>	<b>222.47</b>
<b>RDG Semiconductor Composite</b>	<b>100.00</b>	<b>131.61</b>	<b>128.78</b>	<b>143.95</b>	<b>195.98</b>	<b>196.30</b>
<b>PHLX Semiconductor</b>	<b>100.00</b>	<b>135.83</b>	<b>139.10</b>	<b>165.22</b>	<b>223.35</b>	<b>233.52</b>

**Item 6. Selected Financial Data**

	Year Ended				
	June 28, 2015 (1)	June 29, 2014 (1)	June 30, 2013 (1)	June 24, 2012 (1)	June 26, 2011
(in thousands, except per share data)					
<b>OPERATIONS:</b>					
Revenue	\$5,259,312	\$4,607,309	\$3,598,916	\$2,665,192	\$3,237,693
Gross margin	2,284,336	2,007,481	1,403,059	1,084,069	1,497,232
Goodwill impairment (2)	79,444	—	—	—	—
Restructuring charges, net	—	—	1,813	1,725	11,579
Operating income	788,039	677,669	118,071	237,733	804,285
Net income	655,577	632,289	113,879	168,723	723,748
Net income per share:					
Basic	\$ 4.11	\$ 3.84	\$ 0.67	\$ 1.36	\$ 5.86
Diluted	\$ 3.70	\$ 3.62	\$ 0.66	\$ 1.35	\$ 5.79
Cash dividends declared per common share	\$ 0.84	\$ 0.18	\$ —	\$ —	\$ —
<b>BALANCE SHEET:</b>					
Working capital	\$3,639,488	\$3,201,661	\$2,389,354	\$2,988,181	\$2,592,506
Total assets	9,364,648	7,993,306	7,250,315	8,004,652	4,053,867
Long-term obligations, less current portion	1,388,335	1,198,221	1,170,048	1,255,600	903,263
Current portion of long-term debt and capital leases	1,359,650	518,267	520,686	514,655	4,782

- (1) Fiscal years 2015, 2014, and 2013 amounts include operating results of Novellus. Fiscal year 2012 amounts include 20 days of operating results of Novellus from the acquisition date of June 4, 2012. The Novellus acquisition was accounted for as a business combination in accordance with the applicable accounting guidance.
- (2) Goodwill impairment analysis during fiscal year 2015 resulted in a non-cash impairment charge upon our single-wafer clean reporting unit, extinguishing the goodwill ascribed to the reporting unit.

	Three Months Ended (1)			
	June 28, 2015	March 29, 2015	December 28, 2014	September 28, 2014
unaudited (in thousands, except per share data)				
QUARTERLY FISCAL YEAR 2015:				
Revenue	\$1,481,370	\$1,393,333	\$1,232,241	\$1,152,368
Gross margin	641,538	600,602	536,657	505,539
Goodwill impairment	79,444	—	—	—
Operating income	191,035	239,965	188,741	168,298
Net income	131,271	206,285	176,940	141,081
Net income per share				
Basic	\$ 0.83	\$ 1.30	\$ 1.11	\$ 0.87
Diluted	\$ 0.74	\$ 1.16	\$ 1.00	\$ 0.80
Number of shares used in per share calculations:				
Basic	158,590	158,992	159,248	161,685
Diluted	176,575	177,531	177,046	177,118

	Three Months Ended (1)			
	June 29, 2014	March 30, 2014	December 29, 2013	September 29, 2013
unaudited (in thousands, except per share data)				
QUARTERLY FISCAL YEAR 2014:				
Revenue	\$1,248,797	\$1,227,392	\$1,116,061	\$1,015,059
Gross margin	557,036	530,798	487,789	431,858
Operating income	215,850	191,937	164,474	105,408
Net income	233,395	164,396	148,992	85,506
Net income per share				
Basic	\$ 1.44	\$ 1.01	\$ 0.92	\$ 0.52
Diluted	\$ 1.35	\$ 0.96	\$ 0.87	\$ 0.50
Number of shares used in per share calculations:				
Basic	162,215	162,238	162,305	162,896
Diluted	173,345	171,636	171,757	171,363

(1) Our reporting period is a 52/53-week fiscal year. The fiscal years ended June 28, 2015 and June 29, 2014 included 52 weeks. All quarters presented above included 13 weeks.

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

***The following discussion of our financial condition and results of operations contains forward-looking statements, which are subject to risks, uncertainties and changes in condition, significance, value and effect. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including but not limited to those discussed in "Risk Factors" and elsewhere in this 2015 Form 10-K and other documents we file from time to time with the Securities and Exchange Commission. (See "Cautionary Statement Regarding Forward-Looking Statements" in Part I of this 2015 Form 10-K).***

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") provides a description of our results of operations and should be read in conjunction with our Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in this 2015 Form 10-K. MD&A consists of the following sections:

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

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

*Critical Accounting Policies and Estimates* discusses accounting policies that reflect the more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

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

### ***Executive Summary***

Lam Research has been an innovative supplier of wafer fabrication equipment and services to the semiconductor industry for more than 35 years. Our customers include semiconductor manufacturers that make memory, microprocessors, and other logic integrated circuits for a wide range of electronics; including cell phones, computers, tablets, storage devices, and networking equipment.

Our market-leading products are designed to help our customers build the smaller, faster, and more powerful devices that are necessary to power the capabilities required by end users. The process of integrated circuits fabrication consists of a complex series of process and preparation steps, and our product offerings in deposition, etch, and clean address a number of the most critical steps in the fabrication process. We leverage our expertise in semiconductor processing to develop technology and/or productivity solutions that typically benefit our customers through lower defect rates, enhanced yields, faster processing time, and reduced cost as well as by facilitating their ability to meet more stringent performance and design standards.

The semiconductor capital equipment industry has been highly competitive and characterized by rapid changes in demand. This cyclical nature has been mitigated in recent years by market demands and consolidation among our customers. With a reduced number of customers, variability in their business plans may lead to changes in demand for Lam's equipment and services. The variability in our customers' investments during any particular period is dependent on several factors including but not limited to electronics demand, economic conditions (both general and in the semiconductor and electronics industries), industry supply and demand, prices for semiconductors, and our customers' ability to develop and manufacture increasingly complex and costly semiconductor devices.

Demand for our products was strong throughout the fiscal year as semiconductor device manufacturers made capacity and technology investments. We expect growth in the overall wafer fabrication equipment market in calendar year 2015 compared to calendar year 2014 related to leading edge investments by our customers. Technology inflections in our industry, including FinFET transistors, 3D NAND, multiple patterning, and advanced packaging have led to an increase in the deposition and etch market sizes. We believe that, over the longer term, demand for our products should increase as the proportion of customers' capital expenditures rises in these technology inflection areas, and we continue to gain market share.

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

	Year Ended						
	June 28, 2015	June 29, 2014	June 30, 2013				
				FY15 vs. FY14		FY14 vs. FY13	
	(in thousands, except per share data and percentages)						
Revenue	\$5,259,312	\$4,607,309	\$3,598,916	\$652,003	14.2%	\$1,008,393	28.0%
Gross margin	\$2,284,336	\$2,007,481	\$1,403,059	\$276,855	13.8%	\$ 604,422	43.1%
Gross margin as a percent of total revenue	43.4%	43.6%	39.0%	-0.2%		4.6%	
Total operating expenses	\$1,496,297	\$1,329,812	\$1,284,988	\$166,485	12.5%	\$ 44,824	3.5%
Net income	\$ 655,577	\$ 632,289	\$ 113,879	\$ 23,288	3.7%	\$ 518,410	455.2%
Diluted net income per share	\$ 3.70	\$ 3.62	\$ 0.66	\$ 0.08	2.2%	\$ 2.96	448.5%

Fiscal year 2015 revenues increased 14% compared to fiscal year 2014, reflecting the steady increase in technology inflections' spending, as well as incremental market share gains. The small decrease in gross margin as a percentage of revenue for the fiscal year 2015 compared to fiscal year 2014 was due primarily to less favorable product mix partially offset by improved factory utilization due to higher production volumes.

Operating expenses in fiscal year 2015 increased as compared to fiscal year 2014 primarily related to continued investments in the next-generation research and development. In fiscal year 2015, we also recorded a goodwill impairment of approximately \$79 million related to our single-wafer clean reporting unit.

Our cash and cash equivalents, short-term investments, and restricted cash and investments balances totaled approximately \$4.2 billion as of June 28, 2015 compared to \$3.2 billion as of June 29, 2014. This increase was primarily the result of \$992 million net proceeds from March 2015 Senior Notes issuance. Cash flows provided from operating activities was \$786 million for fiscal year 2015 compared to \$717 million for fiscal year 2014. Cash flows provided from operating activities in fiscal 2015 was primarily used for \$573 million in treasury stock purchases, \$116 million in dividends paid to our stockholders, and \$198 million of capital expenditures, and are partially offset by \$66 million of treasury stock reissuance and common stock issuance resulting from our employee equity-based compensation programs.

## **Results of Operations**

### *Shipments and Backlog*

Shipments for fiscal year 2015 were approximately \$5.5 billion and increased by 20% compared to fiscal year 2014. Shipments for fiscal year 2014 were approximately \$4.6 billion and increased by 23% compared to fiscal year 2013. The increase in shipments during fiscal year 2015 as compared to fiscal year 2014, as well as the

increase in shipments during fiscal year 2014 as compared to fiscal year 2013 related to continued strengthening of customer demand for semiconductor equipment.

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
Shipments (in millions)	\$5,472	\$4,551	\$3,714
Korea	26%	24%	16%
Taiwan	22%	21%	29%
United States	15%	15%	20%
Japan	14%	13%	11%
China	12%	15%	9%
Europe	6%	7%	8%
Southeast Asia	5%	5%	7%

The percentage of total semiconductor processing system shipments to each of the markets we serve were as follows for fiscal years 2015, 2014, and 2013.

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
Memory	58%	60%	36%
Foundry	30%	30%	49%
Logic/integrated device manufacturing	12%	10%	15%

Our shipments to memory customers remained strong during fiscal year 2015 driven by mobile and enterprise demands. During fiscal year 2014, memory customer demand was higher due to node transitions in memory manufacturing, stable pricing for memory, and tight industry supply.

Unshipped orders in backlog as of June 28, 2015 were approximately \$880 million and increased from approximately \$866 million as of June 29, 2014. Our unshipped orders backlog includes orders for systems, spares, and services. Please refer to “Backlog” in Part I Item 1, “Business” of this report for a description of our policies for adding to and adjusting backlog.

#### Revenue

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
Revenue (in millions)	\$5,259	\$4,607	\$3,599
Korea	27%	24%	17%
Taiwan	21%	23%	29%
United States	17%	13%	20%
Japan	12%	14%	10%
China	12%	14%	9%
Europe	6%	7%	8%
Southeast Asia	5%	5%	7%

The revenue increase in fiscal year 2015 as compared to fiscal year 2014 reflected an increase in technology and capacity investments by our customers. The revenue increase in fiscal year 2014 as compared to fiscal year 2013 reflected increased customer and industry demand. Our revenue levels are generally correlated to the amount of shipments and our installation and acceptance timelines. The overall Asia region continues to account for a majority of our revenues as a substantial amount of the worldwide capacity additions for semiconductor manufacturing continues to occur in this region. Our deferred revenue balance was \$518 million as of June 28, 2015 compared to \$362 million as of June 29, 2014. Our deferred revenue balance does not include shipments to Japanese customers, to whom title does not transfer until customer acceptance. Shipments to Japanese customers are classified as inventory at cost until the time of customer acceptance. The anticipated future revenue value from shipments to Japanese customers was approximately \$164 million as of June 28, 2015 compared to \$34 million as of June 29, 2014.

#### Gross Margin

	Year Ended			FY15 vs. FY14	FY14 vs. FY13
	June 28, 2015	June 29, 2014	June 30, 2013		
(in thousands, except percentages)					
Gross margin	\$2,284,336	\$2,007,481	\$1,403,059	\$276,855 13.8%	\$604,422 43.1%
Percent of total revenue	43.4%	43.6%	39.0%	-0.2%	4.6%

The decrease in gross margin as a percentage of revenue for fiscal year 2015 compared to fiscal year 2014 was due primarily to a less favorable product mix partially offset by improved factory utilization due to higher production volumes.

The increase in gross margin as a percentage of revenue for fiscal year 2014 compared to fiscal year 2013 was due to higher business volumes as well as a more favorable product mix. Additionally, the Novellus acquisition related inventory fair value impact and cost associated with rationalization of certain product configurations decreased by \$78 million and \$15 million, respectively, in fiscal year 2014 as compared to fiscal year 2013.

#### Research and Development

	Year Ended			FY15 vs. FY14	FY14 vs. FY13
	June 28, 2015	June 29, 2014	June 30, 2013		
(in thousands, except percentages)					
Research & development ("R&D")	\$825,242	\$716,471	\$683,688	\$108,771 15.2%	\$32,783 4.8%
Percent of total revenue	15.7%	15.6%	19.0%	0.1%	-3.4%

We continued to make significant R&D investments focused on leading-edge deposition, plasma etch, single-wafer clean and other semiconductor manufacturing requirements. The increase in R&D expense during fiscal year 2015 compared to fiscal year 2014 was primarily due to a \$71 million increase in salaries and benefits related to increased headcount and higher incentive and equity compensation, a \$12 million increase in supplies, a \$5 million increase in depreciation and lab maintenance, and a \$6 million increase in outside services.

The increase in R&D expense during fiscal year 2014 compared to fiscal year 2013 was primarily due to a \$41 million increase in salaries and benefits related to higher headcount and higher incentive and equity compensation offset by a reduction of \$7 million in supplies.

*Selling, General and Administrative*

	Year Ended			FY15 vs. FY14	FY14 vs. FY13
	June 28, 2015	June 29, 2014	June 30, 2013		
	(in thousands, except percentages)				
Selling, general & administrative ("SG&A")	\$591,611	\$613,341	\$601,300	\$(21,730) -3.5%	\$12,041 2.0%
Percent of total revenue	11.2%	13.3%	16.7%	-2.1%	-3.4%

The decrease in SG&A expense during fiscal year 2015 compared to fiscal year 2014 was due primarily to an \$11 million decrease in integration costs, a \$9 million decrease in costs associated with rationalization of product configurations, and an \$8 million decrease related to impairment of long lived assets. This decrease is offset by an \$8 million increase in compensation and benefits expense.

The increase in SG&A expense during fiscal year 2014 compared to fiscal year 2013 was due primarily to a net increase of \$11 million in salaries, benefits and incentive compensation, \$20 million increase in marketing expenses and outside services, \$7 million in costs associated with rationalization of certain product configurations, \$8 million of impairment of long lived assets, and a \$5 million cost related to the renewal of our Fremont and Livermore buildings' operating leases. This increase was offset by a \$34 million reduction in integration costs and a \$10 million reduction in amortization of intangible assets related to the Novellus integration.

*Goodwill Impairment*

Our annual goodwill impairment analysis for fiscal year 2015 resulted in a non-cash impairment charge upon our single-wafer clean reporting unit of \$79 million, extinguishing the goodwill ascribed to the reporting unit. Uncertainty surrounding future revenue growth in certain products resulted in the estimated discounted cash flow falling below the carrying value of the goodwill balance.

*Gain on Sale of Real Estate*

During fiscal year 2014, we sold our interest in nonessential property in Palo Alto, California, resulting in \$135 million in net proceeds and a realized gain of \$83 million from the transaction.

*Other Expense, Net*

Other expense, net, consisted of the following:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
	(in thousands)		
Interest income	\$ 19,268	\$ 12,540	\$ 14,737
Interest expense	(73,682)	(61,692)	(60,408)
Gains on deferred compensation plan related assets, net	9,071	9,559	9,764
Foreign exchange gains (losses), net	2,331	1,529	(6,808)
Other, net	(4,177)	668	(8,698)
	<u>\$(47,189)</u>	<u>\$(37,396)</u>	<u>\$(51,413)</u>

The increase in interest expense during fiscal year 2015 as compared with fiscal years 2014 and 2013 was primarily due to the \$1 billion Senior Note issuance in the March 2015 quarter.

Foreign exchange gains in fiscal year 2015 and 2014 and losses in fiscal years 2013 were related to un-hedged portions of the balance sheet exposures.

Other, net expense realized during fiscal year 2015 was primarily due to a settlement of matters relating to certain investment transactions. Other, net income realized during fiscal year 2014 was primarily due to a gain on the disposition of a private equity investment. Other, net expenses during fiscal year 2013 included a \$4 million other-than-temporary impairment of a public equity investment recognized during the March 2013 quarter.

*Income Tax Expense (benefit)*

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
	(in thousands, except percentages)		
Income tax expense (benefit)	\$85,273	\$91,074	\$(47,221)
Effective tax rate	11.5%	12.6%	-70.8%

The decrease in the effective tax rate in fiscal year 2015 as compared to fiscal year 2014 was primarily due to geographic mix of income between higher and lower tax jurisdictions, and an increased federal tax benefit in fiscal year 2015 due to a retroactive reinstatement of the second half of fiscal year 2014 federal research and development tax credit in fiscal year 2015. The increase in the effective tax rate in fiscal year 2014 as compared to fiscal year 2013 was primarily due to the change in the level of income and geographic mix of income between higher and lower tax jurisdictions, U.S. income and applicable foreign withholding taxes on undistributed foreign earnings of certain of our foreign subsidiaries for 2014, reduced tax benefit in fiscal year 2014 due to the expiration of the federal research and development tax credit as of December 31, 2013, and tax benefits in fiscal year 2013 related to the recognition of previously unrecognized tax benefits due to the lapse of the statute of limitations and successful resolution of certain tax matters.

International revenues account for a significant portion of our total revenues, such that a material portion of our pre-tax income is earned and taxed outside the United States at rates that are generally lower than in the United States. Please refer to Note 7 of our Consolidated Financial Statements.

*Deferred Income Taxes*

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the tax effect of carryforwards. Our gross deferred tax assets, composed primarily of reserves and accruals that are not currently deductible and tax credit carryforwards, were \$311 million and \$343 million at the end of fiscal years 2015 and 2014, respectively. These gross deferred tax assets were offset by deferred tax liabilities of \$318 million and \$294 million at the end of fiscal years 2015 and 2014, respectively, and a valuation allowance of \$86 million and \$74 million at the end of fiscal years 2015 and 2014, respectively. The change in the gross deferred tax assets and deferred tax liabilities between fiscal year 2015 and 2014 is primarily due to the reclassification of deferred tax assets as a result of the adoption of Accounting Standards Update 2013-11, an accrual for future tax liabilities due to the expected repatriation of foreign earnings of certain foreign subsidiaries for 2015, and convertible debt accretion, offset by a decrease in deferred tax liabilities related to amortization of intangible assets.

Our fiscal years 2015 and 2014 valuation allowance of \$86 million and \$74 million primarily relate to California and certain foreign deferred tax assets.

As of our fiscal year end of June 28, 2015, we continue to record a valuation allowance to offset the entire California deferred tax asset balance due to the single sales factor apportionment election resulting in lower taxable income in California. We also continue to record valuation allowances on certain foreign entities' net operating losses.

We evaluate if the deferred tax assets are realizable on a quarterly basis and will continue to assess the need for changes in valuation allowances, if any.

### *Uncertain Tax Positions*

We re-evaluate 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, and effectively settled issues under audit. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

### ***Critical Accounting Policies and Estimates***

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

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

We believe that the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

*Revenue Recognition:* We recognize 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 or are otherwise released from our 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 using their relative selling prices, based on our best estimate of selling price. Our sales arrangements do not include a general right of return. The maximum revenue recognized on a delivered element is limited to the amount that is not contingent upon the delivery of additional items. 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, deferred revenue and deferred costs are recorded in deferred profit on our Consolidated Balance Sheet.

*Inventory Valuation:* Inventories are stated at the lower of cost or market using standard costs that approximate actual costs on a first-in, first-out basis. Finished goods are reported as inventories until the point of title transfer to the customer. Unless specified in the terms of sale, title generally transfers at the physical transfer of the products to the freight carriers. Transfer of title for shipments to Japanese customers occurs at the time of customer acceptance.

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 requirement 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 warranties to customers as part of the overall price of the system. We provide standard warranties for our systems. 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. All actual or estimated parts and labor costs incurred in subsequent periods are charged to those established reserves on a system-by-system basis.

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:* We recognize the fair value of equity-based compensation expense. We determine the fair value of our restricted stock units ("RSUs"), excluding market-based performance RSUs, based upon the fair market value of our common stock at the date of grant, discounted for dividends. We estimate the fair value of our market-based performance RSUs using a Monte Carlo simulation model at the date of the grant. We estimate the fair value of our stock options and ESPP awards using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each award. We amortize the fair value of equity-based awards over the vesting periods of the award 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 equity-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 equity-based compensation on the research tax credit through the income statement 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 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.

*Goodwill and Intangible Assets:* The valuation of intangible assets acquired in a business combination requires the use of management estimates including but not limited to estimating future expected cash flows from assets acquired and determining discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Estimates associated with the accounting for acquisitions may change as additional information becomes available.

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. Each component of the Company for which discrete financial information is available and for which management regularly reviews the results of operations is considered a reporting unit. All goodwill acquired in a business combination is assigned to one or more reporting units as of the acquisition date. Goodwill is assigned to our reporting units that are expected to benefit from the synergies of the combination. The goodwill assigned to a reporting unit is the difference between the acquisition consideration assigned to the reporting unit on a relative fair value basis and the fair value of acquired assets and liabilities that can be specifically attributed to the reporting unit. 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 will perform an impairment test at that date. In testing for a potential impairment of goodwill, we: (1) allocate goodwill to the 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. Prior to this allocation of the assets to the reporting units, we 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. In our goodwill impairment process we first assess qualitative factors to determine whether it is necessary to perform a quantitative analysis. We do not calculate the fair value of a reporting unit unless we determine, based on a qualitative assessment, that it is more-likely-than-not that the reporting unit's fair value is less than its carrying amount. Our most recent annual goodwill impairment analysis, which was performed as of the first day of our fourth quarter of fiscal year 2015, March 30, 2015, resulted in the recognition of a \$79.4 million goodwill impairment charge on our single-wafer clean systems reporting unit. We did not record any goodwill impairment in fiscal years 2014 or 2013.

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 an income approach. 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, 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 it is using to manage the underlying businesses, there is significant judgment involved in determining the cash flows attributable to a reporting unit. In addition, we make certain judgments about allocating shared assets to the estimated balance sheets of our reporting units. Changes in judgment on these assumptions and estimates could result in a goodwill impairment charge.

As a result, several factors could result in an 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 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 common stock price and resulting market capitalization, and to the extent we determine that the decline is sustained and indicates a reduction in the fair value of our reporting units below their carrying value. Further, the value assigned to intangible assets, other than goodwill, is based on estimates and judgments regarding expectations such as the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, we may be required to record an impairment charge to write down the asset to its realizable value.

#### *Recent Accounting Pronouncements*

In July 2013, the FASB released Accounting Standards Update 2013-11 “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” The new standard requires that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss carryforward or other tax credit carryforward when settlement in this manner is available under the tax law. We adopted this standard during the fiscal year without significant impact on our financial position, results of operations, or cash flows.

In April 2014, the FASB released Accounting Standards Update 2014-8 “Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity.” The new standard re-defines discontinued operations and requires only those disposals of components of an entity, including classifications as held for sale, that represent a strategic shift that has, or will have, a major effect on an entity’s operations and financial results to be reported as discontinued operations. In addition, the new standard expands the disclosure requirements of discontinued operations. We adopted this standard during the fiscal year without significant impact on our financial position, results of operations, or cash flows.

In May 2014, the FASB released Accounting Standards Update 2014-9 “Revenue from Contracts with Customers” to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of the standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new standard defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. We are required to adopt this standard starting in the first quarter of fiscal year 2019 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within the standard; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined per the standard. We have not yet selected a transition method, and are in the process of determining the impact that the new standard will have on our Consolidated Financial Statements.

In April 2015, the FASB released Accounting Standards Update 2015-3 “Interest — Imputation of Interest.” The amendment requires that debt issuance costs related to recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We are required to adopt this standard starting in the first quarter of fiscal year 2017, we do not anticipate that adoption will have a material impact on our Consolidated Financial Statements.

#### ***Liquidity and Capital Resources***

Total gross cash, cash equivalents, short-term investments, and restricted cash and investments balances were \$4.2 billion at the end of fiscal year 2015 compared to \$3.2 billion at the end of fiscal year 2014. This increase was primarily the result of \$992 million net proceeds from the March 2015 debt issuances. Approximately \$2.2 billion of

our total cash and investments as of both June 28, 2015 and June 29, 2014, was held outside the United States in our foreign subsidiaries, the majority of which is held in U.S. dollars and, of which substantially all would be subject to tax at U.S. rates if it were to be repatriated. Refer to Note 7 of our Consolidated Financial Statements, included in Item 8 of this report, for information concerning the potential tax impact of repatriating earnings for certain non-U.S. subsidiaries that are permanently reinvested outside the United States.

#### *Cash Flows from Operating Activities*

Net cash provided by operating activities of \$785.5 million during fiscal year 2015 consisted of (in millions):

Net income	\$ 655.6
Non-cash charges:	
Depreciation and amortization	277.9
Equity-based compensation	135.4
Deferred income taxes	6.0
Amortization of note discounts and issuance costs	37.6
Goodwill impairment	79.4
Long-lived asset impairment	10.0
Changes in operating asset and liability accounts	(420.9)
Other	4.5
	<u>\$ 785.5</u>

Significant changes in operating asset and liability accounts, net of foreign exchange impact, included the following uses of cash: increases in accounts receivable of \$294.2 million, inventories of \$207.5 million, and prepaid expenses and other assets of \$52.5 million, combined with a decrease in accrued expenses and other liabilities of \$29.5 million, partially offset by the following sources of cash: increases in accounts payable of \$76.6 million and deferred profit of \$86.1 million.

#### *Cash Flows from Investing Activities*

Net cash used for investing activities during fiscal year 2015 was \$1,106.1 million, which was primarily due to net purchases of available-for-sale securities of \$949.7 million, and capital expenditures of \$198.3 million, partially offset by cash proceeds on the sale of business of \$41.2 million.

#### *Cash Flows from Financing Activities*

Net cash provided by financing activities during fiscal year 2015 was \$378.5 million, which was primarily due to \$992.2 million in proceeds from issuance of long-term debt, partially offset by \$573.2 million in treasury stock repurchases and \$116.1 million of dividends paid to stockholders.

#### *Liquidity*

Given the historical cyclical nature of the semiconductor equipment industry, we believe that maintaining sufficient liquidity reserves is important to support sustaining levels of investment in R&D and capital infrastructure. Based upon our current business outlook, we expect that our levels of cash, cash equivalents, and short-term investments at June 28, 2015 will be sufficient to support our presently anticipated levels of operations, investments, debt service requirements, and capital expenditures, through at least the next 12 months.

In the longer term, liquidity will depend to a great extent on our future revenues and our ability to appropriately manage our costs based on demand for our products and services. While we have substantial cash balances in

the United States and offshore, we may require additional funding and need or choose to raise the required funds through borrowings or public or private sales of debt or equity securities. We believe that, if necessary, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, there can be no certainty that such funding will be available in needed quantities or on terms favorable to us.

#### *Off-Balance Sheet Arrangements and Contractual Obligations*

We have certain obligations to make future payments under various contracts, some of which are recorded on our balance sheet and some of which are not. Obligations that are recorded on our balance sheet in accordance with GAAP include our long-term debt which is outlined in the following table. Our off-balance sheet arrangements are presented as operating leases and purchase obligations in the table. Our contractual obligations and commitments as of June 28, 2015, relating to these agreements and our guarantees are included in the following table based on their contractual maturity date. The amounts in the table below exclude \$203 million of liabilities related to uncertain tax benefits as we are unable to reasonably estimate the ultimate amount or time of settlement. See Note 7 of the Consolidated Financial Statements for further discussion.

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Sublease Income
	(in thousands)					
Operating Leases	\$ 58,544	\$ 17,593	\$ 20,548	\$ 10,071	\$ 10,810	\$(478)
Capital Leases	9,077	1,630	7,300	147	—	—
Purchase Obligations	193,855	189,954	1,961	1,940	—	—
Long-term Debt and Interest Expense (1)	3,361,407	508,717	562,790	598,122	1,691,778	—
<b>Total</b>	<b>\$3,622,883</b>	<b>\$717,894</b>	<b>\$592,599</b>	<b>\$610,280</b>	<b>\$1,702,588</b>	<b>\$(478)</b>

(1) The conversion period for the Convertible Notes was open as of June 28, 2015 and as such the net carrying value of the Convertible Notes is included within current liabilities on our Consolidated Balance Sheet. The principal balances of the Convertible Notes are reflected in the payment period in the table above based on the contractual maturity assuming no conversion. See Note 14 of our Consolidate Financial Statements for additional information concerning the Convertible Notes and associated conversion features.

#### *Operating Leases*

We lease most of our administrative, R&D and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases. Certain of our facility leases for buildings located in Fremont and Livermore, California, and certain other facility leases provide us with an option to extend the leases for additional periods or to purchase the facilities. Certain of our facility leases provide for periodic rent increases based on the general rate of inflation. In addition to amounts included in the table above, we have guaranteed residual values for certain of our Fremont and Livermore facility leases of up to \$250 million. See Note 16 to the Consolidated Financial Statements for further discussion.

#### *Capital Leases*

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

#### *Purchase Obligations*

Purchase obligations consist of significant contractual obligations either on an annual basis or over multi-year periods related to our outsourcing activities or other material commitments, including vendor-consigned inventories. The contractual cash obligations and commitments table presented above contains our minimum obligations at June 28, 2015 under these arrangements and others. For obligations with cancellation provisions,

the amounts included in the preceding table were limited to the non-cancelable portion of the agreement terms or the minimum cancellation fee. Actual expenditures will vary based on the volume of transactions and length of contractual service provided.

#### *Long-Term Debt*

In May 2011, we issued and sold \$450 million in aggregate principal amount of 0.50% Convertible Senior Notes due May 2016 (the "2016 Notes") at par. At the same time, we issued and sold \$450 million in aggregate principal amount of 1.25% Convertible Senior Notes due May 2018 (the "2018 Notes") at par. We pay cash interest at an annual rate of 0.5% and 1.25%, respectively, on the 2016 Notes and the 2018 Notes, on a semi-annual basis. The 2016 Notes and 2018 Notes may be converted into our Common Stock, under certain circumstances, based on a conversion rate of 16.0806 shares of our Common Stock per \$1,000 principal amount of Notes, which is equal to a conversion price of approximately \$62.19 per share of our Common Stock. The conversion price will be subject to adjustment for certain corporate events, including dividends on our Common Stock. Concurrently with the issuance of the Notes, we purchased convertible note hedges and sold warrants, which were structured to reduce the potential future economic dilution associated with the conversion of the 2016 Notes and 2018 the Notes.

In June 2012, with the acquisition of Novellus, we assumed \$700 million in aggregate principal amount of 2.625% Convertible Senior Notes due May 2041 (the "2041 Notes," and collectively with the 2016 Notes and the 2018 Notes, the "Convertible Notes"). We pay cash interest at an annual rate of 2.625%, on a semi-annual basis. The 2041 Notes may be converted, under certain circumstances, into our Common Stock based on a conversion rate of 28.8585 shares of Common Stock per \$1,000 principal amount of notes, which represents a conversion price of approximately \$34.65 per share of Common Stock. The conversion price will be subject to adjustment for certain events, including dividends on our Common Stock.

During the quarter-ended June 28, 2015, the market value of our Common Stock was greater than or equal to 130% of the Convertible Notes conversion prices for 20 or more trading days of the 30 consecutive trading days preceding the quarter end. As a result, the Convertible Notes are convertible at the option of the holder and are classified as current liabilities in our Consolidated Balance Sheets for fiscal year 2015.

On March 12, 2015, we completed a public offering of \$500 million aggregate principal amount of Senior Notes due March 15, 2020 (the "2020 Notes") and \$500 million aggregate principal amount of Senior Notes due March 15, 2025 (the "2025 Notes," together with the 2020 Notes, the "Senior Notes", and collectively with the Convertible Notes, the "Notes"). We will pay interest at an annual rate of 2.75% and 3.80%, respectively, on the 2020 Notes and 2025 Notes, on a semi-annual basis on March 15 and September 15 of each year, beginning September 15, 2015.

We may redeem the Senior Notes at a redemption price equal to 100% of the principal amount of such series ("par"), plus a "make whole" premium as described in the indenture in respect to the Senior Notes and accrued and unpaid interest before February 15, 2020, for the 2020 Notes and before December 15, 2024, for the 2025 Notes. We may redeem the Senior Notes at par, plus accrued and unpaid interest at any time on or after February 15, 2020 for the 2020 Notes and on or after December 24, 2024 for the 2025 Notes. In addition, upon the occurrence of certain events, as described in the indenture, we will be required to make an offer to repurchase the Senior Notes at a price equal to 101% of the principal amount of the Senior Notes, plus accrued and unpaid interest.

During fiscal year 2015, 2014, and 2013, we made \$1.5 million, \$1.7 million, and \$2.2 million, respectively, in principal payments on long-term debt and capital leases, respectively.

#### *Revolving Credit Arrangements*

On March 12, 2014, we entered into a \$300 million revolving unsecured credit facility with a syndicate of lenders that matures on March 12, 2019. The facility includes an option for us to, subject to certain requirements, request an increase in the facility of up to an additional \$200 million, for a potential total commitment of \$500 million.

Proceeds from the credit facility can be used for general corporate purposes. Interest on amounts borrowed under the credit facility is, at our option, based on (i) a base rate, defined as the greatest of (a) prime rate, (b) Federal Funds rate plus 0.5%, or (c) one-month LIBOR plus 1.0%, plus a spread of 0.0% to 0.5% or (ii) LIBOR plus a spread of 0.9% to 1.5%, in each case the applicable spread is determined based on the rating of our non-credit enhanced, senior unsecured long-term debt. Principal, and any accrued and unpaid interest, is due and payable upon maturity. Additionally, we will pay the lenders a quarterly commitment fee that varies based on our rating described above. The credit facility contains certain restrictive covenants including maintaining a consolidated debt to total capitalization ratio of no more than 0.5 to 1.0 and maintaining unrestricted or unencumbered cash and investments, of no less than \$1.0 billion. As of June 28, 2015, we had no borrowings outstanding under the credit facility and were in compliance with all financial covenants.

#### *Other Guarantees*

We have issued certain indemnifications to our lessors for taxes and general liability under some of our agreements. We have entered into certain insurance contracts that may limit our exposure to such indemnifications. As of June 28, 2015, we had not recorded any liability on our Consolidated Financial Statements in connection with these indemnifications, as we do not believe, based on information available, that it is probable that we will pay any amounts under these guarantees.

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

We provide guarantees and standby letters of credit to certain parties as required for certain transactions initiated during the ordinary course of business. As of June 28, 2015, the maximum potential amount of future payments that we could be required to make under these arrangements and letters of credit was \$15.5 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.

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

#### **Investments**

We maintain an investment portfolio of various holdings, types, and maturities. As of June 28, 2015, our mutual funds are classified as trading securities. Investments classified as trading securities are recorded at fair value based upon quoted market prices. Any material differences between the cost and fair value of trading securities is recognized as "Other income (expense)" in our Consolidated Statement of Operations. All of our other short-term investments are classified as available-for-sale and consequently are recorded in the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of tax.

#### **Interest Rate Risk**

##### **Fixed Income Securities**

Our investments in various interest earning securities carry a degree of market risk for changes in interest rates. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates could have a material adverse impact on interest income for our investment portfolio. We target to maintain a conservative investment policy, which focuses on the safety and preservation of our capital by limiting default risk, market risk, reinvestment risk, and concentration risk. The following table presents the hypothetical fair values of fixed income securities that would result from selected potential decreases and increases in interest rates. Market changes reflect immediate hypothetical parallel shifts in

the yield curve of plus or minus 50 basis points (“BPS”), 100 BPS, and 150 BPS. The hypothetical fair values as of June 28, 2015 were as follows:

	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value as of June 28, 2015	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)	0.00%	50 BPS	100 BPS	150 BPS
(in thousands)							
Time Deposit	\$ 177,567	\$ 177,567	\$ 177,567	\$ 177,567	\$ 177,567	\$ 177,567	\$ 177,567
Municipal Notes and Bonds	664,269	663,950	662,706	659,644	656,254	652,863	649,473
US Treasury & Agencies	360,447	359,598	356,415	352,223	347,915	343,611	339,307
Government-Sponsored Enterprises	54,961	54,678	54,032	53,365	52,696	52,025	51,355
Foreign Government Bonds	51,364	51,170	50,719	50,206	49,694	49,181	48,668
Bank and Corporate Notes	1,355,199	1,347,658	1,337,307	1,326,475	1,315,444	1,304,414	1,293,385
Mortgage Backed Securities - Residential	32,523	32,372	32,200	32,011	31,815	31,619	31,423
Mortgage Backed Securities - Commercial	143,246	142,688	142,066	141,426	140,788	140,148	139,509
<b>Total</b>	<b>\$2,839,576</b>	<b>\$2,829,681</b>	<b>\$2,813,012</b>	<b>\$2,792,917</b>	<b>\$2,772,173</b>	<b>\$2,751,428</b>	<b>\$2,730,687</b>

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

### Long-Term Debt

As of June 28, 2015, we had \$3.6 billion in principal amount of fixed-rate long-term debt outstanding, with a fair value of \$3.9 billion. The fair value of our Notes is subject to interest rate risk, market risk, and other factors due to the convertible feature, as applicable. Generally, the fair value of Notes will increase as interest rates fall and decrease as interest rates rise. Additionally, the fair value of the Convertible Notes will increase as our Common Stock price increases and decrease as our Common Stock price decreases. The interest and market value changes affect the fair value of our Notes but do not impact our financial position, cash flows, or results of operations due to the fixed nature of the debt obligations. We do not carry the Notes at fair value, but present the fair value of the principal amount of our Notes for disclosure purposes.

### Equity Price Risk

#### Publicly Traded Securities

The values of our investments in publicly traded securities, including mutual funds related to our obligations under our deferred compensation plans, are subject to market price risk. The following table presents the hypothetical fair values of our publicly traded securities that would result from potential decreases and increases in the price of each security in the portfolio. Potential fluctuations in the price of each security in the portfolio of plus or minus 10%, 15%, or 25% were selected based on potential near-term changes in those security prices. The hypothetical fair values as of June 28, 2015 were as follows:

	Valuation of Securities Given an X% Decrease in Stock Price			Fair Value as of June 28, 2015	Valuation of Securities Given an X% Increase in Stock Price		
	(25%)	(15%)	(10%)	0.00%	10%	15%	25%
(in thousands)							
Mutual Funds	\$25,097	\$28,444	\$30,117	33,463	\$36,809	\$38,482	\$41,829

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

We conduct business on a global basis in several major international currencies. As such, we are potentially exposed to adverse as well as beneficial movements in foreign currency exchange rates. The majority of our revenues and expenses are denominated in U.S. dollars. However, we are exposed to foreign currency exchange rate fluctuations primarily related to revenues denominated in Japanese yen and euro-denominated and Korean won-denominated expenses.

We enter into foreign currency forward contracts to minimize the short-term impact of foreign currency exchange rate fluctuations on certain foreign currency denominated monetary assets and liabilities, primarily third party accounts receivables, accounts payables and intercompany receivables and payables. In addition, we hedge certain anticipated foreign currency cash flows, primarily on Japanese yen-denominated revenues and euro-denominated and Korean won-denominated expenses.

To protect against the reduction in value of anticipated revenues denominated in Japanese yen and euro-denominated and Korean won-denominated expenses, we enter into foreign currency forward contracts that generally expire within 12 months, and no later than 24 months. These foreign currency forward contracts are designated as cash flow hedges and are carried on our balance sheet at fair value, with the effective portion of the contracts’ gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in earnings in the same period the hedged revenue and/or expense is recognized. We also enter into foreign currency forward contracts to hedge the gains and losses generated by the remeasurement of certain non-U.S.-dollar denominated monetary assets and liabilities, primarily third party accounts receivables, accounts payables and intercompany receivables and payables. The change in fair value of these balance sheet hedge contracts is recorded into earnings as a component of other income (expense), net and offsets the change in fair value of the foreign currency denominated monetary assets and liabilities also recorded in other income (expense), net, assuming the hedge contract fully covers the intercompany and trade receivable balances. The notional amount and unrealized gain of our outstanding forward contracts that are designated as cash flow hedges, as of June 28, 2015 are shown in the table below. This table also shows the change in fair value of these cash flow hedges assuming a hypothetical foreign currency exchange rate movement of plus-or-minus 10 percent and plus-or-minus 15 percent.

		Notional Amount	Unrealized FX Gain / (Loss) June 28, 2015	Valuation of Fx Contracts Given an X% Increase (+)/Decrease(-) in Each	
				+ / - (10%)	+ / - (15%)
(in \$ Millions)					
<b>Cash Flow Hedge</b>					
Sell	Japanese Yen	\$18.9	\$ 2.8	\$1.6	\$2.4
Buy	Korean Won	\$ 7.3	(\$0.1)	\$0.7	\$1.1
Buy	Euro	\$34.4	(\$0.2)	\$3.4	\$5.1
			\$ 2.5	\$5.7	\$8.6

The notional amount and unrealized loss of our outstanding foreign currency forward contracts that are designated as balance sheet hedges, as of June 28, 2015 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) June 28, 2015	Valuation of Fx Contracts Given an X% Increase (+)/Decrease(-) in Each	
				+ / - (10%)	+ / - (15%)
(in \$ Millions)					
<b>Balance Sheet Hedge</b>					
Sell	Japanese Yen	\$49.9	\$ —	\$5.0	\$ 7.5
Buy	Korean Won	\$ 8.9	\$ —	\$0.9	\$ 1.3
Sell	Swiss Francs	\$ 3.3	\$ —	\$0.3	\$ 0.5
Buy	Taiwan Dollar	\$22.1	(\$0.4)	\$2.1	\$ 3.2
Buy	Euro	\$ 4.0	\$ —	\$0.4	\$ 0.6
			(\$0.4)	\$8.7	\$13.1

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

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

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
Revenue	\$5,259,312	\$4,607,309	\$3,598,916
Cost of goods sold	2,974,976	2,599,828	2,195,857
Gross margin	2,284,336	2,007,481	1,403,059
Research and development	825,242	716,471	683,688
Selling, general and administrative	591,611	613,341	601,300
Goodwill impairment	79,444	—	—
Total operating expenses	1,496,297	1,329,812	1,284,988
Operating income	788,039	677,669	118,071
Gain on sale of real estate	—	83,090	—
Other expense, net	(47,189)	(37,396)	(51,413)
Income before income taxes	740,850	723,363	66,658
Income tax (expense) benefit	(85,273)	(91,074)	47,221
Net income	<u>\$ 655,577</u>	<u>\$ 632,289</u>	<u>\$ 113,879</u>
Net income per share:			
Basic	<u>\$ 4.11</u>	<u>\$ 3.84</u>	<u>\$ 0.67</u>
Diluted	<u>\$ 3.70</u>	<u>\$ 3.62</u>	<u>\$ 0.66</u>
Number of shares used in per share calculations:			
Basic	<u>159,629</u>	<u>164,741</u>	<u>168,932</u>
Diluted	<u>177,067</u>	<u>174,503</u>	<u>173,430</u>

See Notes to Consolidated Financial Statements

**LAM RESEARCH CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
Net income	\$655,577	\$632,289	\$113,879
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(22,139)	4,192	5,303
Cash flow hedges:			
Net unrealized gains during the period	1,595	8,004	10,607
Net gains reclassified into earnings	(4,388)	(10,892)	(7,573)
	(2,793)	(2,888)	3,034
Available-for-sale investments:			
Net unrealized gains (losses) during the period	(5,389)	1,407	(3,844)
Net losses reclassified into earnings	71	165	4,137
	(5,318)	1,572	293
Defined benefit plans, net change in unrealized component	1,109	(2,838)	(3,505)
Other comprehensive income (loss), net of tax	(29,141)	38	5,125
Comprehensive income	<u>\$626,436</u>	<u>\$632,327</u>	<u>\$119,004</u>

See Notes to Consolidated Financial Statements

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

	June 28, 2015	June 29, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,501,539	\$ 1,452,677
Short-term investments	2,574,947	1,612,967
Accounts receivable, less allowance for doubtful accounts of \$4,890 as of June 28, 2015 and \$4,962 as of June 29, 2014	1,093,582	800,616
Inventories	943,346	740,503
Prepaid expenses and other current assets	157,435	176,899
Total current assets	<u>6,270,849</u>	<u>4,783,662</u>
Property and equipment, net	621,418	543,496
Restricted cash and investments	170,969	146,492
Goodwill	1,387,509	1,466,225
Intangible assets, net	728,140	894,078
Other assets	185,763	159,353
Total assets	<u>\$ 9,364,648</u>	<u>\$ 7,993,306</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Trade accounts payable	\$ 300,203	\$ 223,515
Accrued expenses and other current liabilities	649,438	604,296
Deferred profit	322,070	235,923
Current portion of convertible notes and capital leases	1,359,650	518,267
Total current liabilities	<u>2,631,361</u>	<u>1,582,001</u>
Senior notes, convertible notes, and capital leases, less current portion	1,001,382	817,202
Income taxes payable	202,930	258,357
Other long-term liabilities	184,023	122,662
Total liabilities	<u>4,019,696</u>	<u>2,780,222</u>
Commitments and contingencies		
Temporary equity, convertible notes	241,808	183,349
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 - 158,531 shares at June 28, 2015 and 162,350 shares at June 29, 2014	159	162
Additional paid-in capital	5,366,773	5,239,567
Treasury stock, at cost, 99,562 shares at June 28, 2015 and 92,867 shares at June 24, 2014	(4,302,847)	(3,757,076)
Accumulated other comprehensive loss	(57,796)	(28,655)
Retained earnings	4,096,855	3,575,737
Total stockholders' equity	<u>5,103,144</u>	<u>5,029,735</u>
Total liabilities and stockholders' equity	<u>\$ 9,364,648</u>	<u>\$ 7,993,306</u>

See Notes to Consolidated Financial Statements

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

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 655,577	\$ 632,289	\$ 113,879
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	277,920	292,254	304,116
Deferred income taxes	5,551	7,537	(70,155)
Impairment of long-lived assets	9,821	11,632	—
Impairment of investment	—	—	3,711
Equity-based compensation expense	135,354	103,700	99,330
Income tax benefit (expense) on equity-based compensation plans	11,316	5,973	(483)
Excess tax (benefit) expense on equity-based compensation plans	(11,398)	(6,065)	539
Amortization of note discounts and issuance costs	37,550	35,482	33,920
Gain on sale of business	(7,431)	—	—
Gain on sale of real estate	—	(83,090)	—
Goodwill impairment	79,444	—	—
Other, net	12,656	12,669	37,201
Changes in operating asset and liability accounts:			
Accounts receivable, net of allowance	(294,155)	(201,549)	162,634
Inventories	(207,462)	(190,058)	76,351
Prepaid expenses and other assets	(52,496)	(11,923)	518
Trade accounts payable	76,617	18,704	(58,081)
Deferred profit	86,146	10,886	60,205
Accrued expenses and other liabilities	(29,507)	78,608	(43,752)
Net cash provided by operating activities	<u>785,503</u>	<u>717,049</u>	<u>719,933</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures and intangible assets	(198,265)	(145,503)	(160,795)
Business acquisitions, net of cash acquired	(1,137)	(30,227)	(9,916)
Purchases of available-for-sale securities	(3,086,808)	(1,312,244)	(1,097,956)
Sales and maturities of available-for-sale securities	2,137,068	1,028,278	1,039,551
Purchase of other investments	(2,500)	—	—
Issuance (repayment) of notes receivable	3,978	10,000	(10,000)
Proceeds from sale of assets	—	156,397	660
Proceeds from sale of business	41,212	—	—
Transfer of restricted cash and investments	356	28,085	(181)
Net cash used for investing activities	<u>(1,106,096)</u>	<u>(265,214)</u>	<u>(238,637)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Principal payments on long-term debt and capital lease obligations	(1,515)	(1,658)	(2,234)
Net proceeds from issuance of long-term debt	992,225	—	—
Excess tax benefit (expense) on equity-based compensation plans	11,398	6,065	(539)
Treasury stock purchases	(573,240)	(244,859)	(955,661)
Dividends paid	(116,059)	—	—
Reissuances of treasury stock related to employee stock purchase plan	48,803	42,926	31,265
Proceeds from issuance of common stock	17,520	34,791	39,379
Other	(660)	—	—
Net cash provided by (used for) financing activities	<u>378,472</u>	<u>(162,735)</u>	<u>(887,790)</u>

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
Effect of exchange rate changes on cash and cash equivalents	\$ (9,017)	\$ 1,104	\$ 4,215
Net increase (decrease) in cash and cash equivalents	48,862	290,204	(402,279)
Cash and cash equivalents at beginning of year	1,452,677	1,162,473	1,564,752
Cash and cash equivalents at end of year	<u>\$ 1,501,539</u>	<u>\$ 1,452,677</u>	<u>\$ 1,162,473</u>
Schedule of noncash transactions			
Accrued payables for stock repurchases	<u>\$ 3,255</u>	<u>\$ 3,392</u>	<u>\$ —</u>
Supplemental disclosures:			
Cash payments for interest	<u>\$ 26,393</u>	<u>\$ 26,489</u>	<u>\$ 26,635</u>
Cash payments for income taxes, net	<u>\$ 114,512</u>	<u>\$ 18,157</u>	<u>\$ 7,695</u>

See Notes to Consolidated Financial Statements

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

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income(Loss)	Retained Earnings	Total
Balance at June 24, 2012	186,656	\$187	\$4,943,539	\$(2,636,936)	\$(33,818)	\$2,858,809	\$5,131,781
Sale of common stock	3,301	3	39,377	—	—	—	39,380
Purchase of treasury stock	(28,157)	(28)	—	(934,780)	—	—	(934,808)
Income tax benefits on equity-based compensation plans	—	—	(483)	—	—	—	(483)
Reissuance of treasury stock	1,073	1	(622)	31,886	—	—	31,265
Equity-based compensation expense	—	—	99,310	—	—	—	99,310
Reclassification from temporary to permanent equity	—	—	3,423	—	—	—	3,423
Net income	—	—	—	—	—	113,879	113,879
Other comprehensive income	—	—	—	—	5,125	—	5,125
Balance at June 30, 2013	162,873	163	5,084,544	(3,539,830)	(28,693)	2,972,688	4,488,872
Sale of common stock	3,140	3	34,788	—	—	—	34,791
Purchase of treasury stock	(4,860)	(5)	—	(253,180)	—	—	(253,185)
Income tax benefits on equity-based compensation plans	—	—	5,973	—	—	—	5,973
Reissuance of treasury stock	1,197	1	6,991	35,934	—	—	42,926
Equity-based compensation expense	—	—	103,700	—	—	—	103,700
Reclassification from temporary to permanent equity	—	—	3,571	—	—	—	3,571
Net income	—	—	—	—	—	632,289	632,289
Other comprehensive income	—	—	—	—	38	—	38
Cash dividends declared (\$.18 per common share)	—	—	—	—	—	(29,240)	(29,240)
Balance at June 29, 2014	162,350	162	5,239,567	(3,757,076)	(28,655)	3,575,737	5,029,735
Sale of common stock	2,876	4	17,519	—	—	—	17,523
Purchase of treasury stock	(7,638)	(8)	—	(573,096)	—	—	(573,104)
Income tax benefits on equity-based compensation plans	—	—	11,316	—	—	—	11,316
Reissuance of treasury stock	943	1	21,477	27,325	—	—	48,803
Equity-based compensation expense	—	—	135,354	—	—	—	135,354
Reclassification to temporary from permanent equity, net	—	—	(58,460)	—	—	—	(58,460)
Net income	—	—	—	—	—	655,577	655,577
Other comprehensive income	—	—	—	—	(29,141)	—	(29,141)
Cash dividends declared (\$.84 per common share)	—	—	—	—	—	(134,459)	(134,459)
Balance at June 28, 2015	158,531	\$159	\$5,366,773	\$(4,302,847)	\$(57,796)	\$4,096,855	\$5,103,144

See Notes to Consolidated Financial Statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 28, 2015

### **Note 1: Company and Industry Information**

The Company designs, manufactures, markets, refurbishes and services semiconductor processing equipment used in the fabrication of integrated circuits. Semiconductor wafers are subjected to a complex series of process and preparation steps that result in the simultaneous creation of many individual integrated circuits. The Company leverages its expertise in the areas of deposition, etch, and single-wafer clean to develop processing solutions that are designed to benefit its customers through lower defect rates, enhanced yields, faster processing time, and/or reduced cost.

The Company sells its products and services primarily to companies involved in the production of semiconductors in United States, Europe, Taiwan, Korea, Japan, China, and Southeast Asia.

The semiconductor industry is cyclical in nature and has historically experienced periodic downturns and upturns. Today's leading indicators of changes in customer investment patterns, such as electronics demand, memory pricing, and foundry utilization rates, may not be any more reliable than in prior years. Demand for the Company's equipment can vary significantly from period to period as a result of various factors, including, but not limited to, economic conditions, supply, demand, and prices for semiconductors, customer capacity requirements, and the Company's ability to develop and market competitive products. For these and other reasons, the Company's results of operations for fiscal years 2015, 2014, and 2013 may not necessarily be indicative of future operating results.

### **Note 2: Summary of Significant Accounting Policies**

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"), requires management to make judgments, estimates, and assumptions that could affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates and assumptions on historical experience and on various other assumptions it believes to be applicable, and evaluates them on an on-going basis to ensure they remain reasonable under current conditions. Actual results could differ significantly from those estimates.

*Revenue Recognition:* The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title has passed or services have been rendered, the selling price is fixed or determinable, collection of the receivable is reasonably assured, and the Company has received customer acceptance or is otherwise released from its customer acceptance obligations. If terms of the sale provide for a lapsing customer acceptance period, the Company recognizes revenue upon the expiration of the lapsing acceptance period or customer acceptance, whichever occurs first. If the practices of a customer do not provide for a written acceptance or the terms of sale do not include a lapsing acceptance provision, the Company recognizes revenue when it can be reliably demonstrated that the delivered system meets all of the agreed-to customer specifications. In situations with multiple deliverables, the Company recognizes revenue upon the delivery of the separate elements to the customer and when the Company receives customer acceptance or is otherwise released from its customer acceptance obligations. The Company allocates revenue from multiple-element arrangements among the separate elements using their relative selling prices based on the Company's best estimate of selling price. The Company's sales arrangements do not include a general right of return. The maximum revenue recognized on a delivered element is limited to the amount that is not contingent upon the delivery of additional items. The Company generally recognizes revenue related to sales of spare parts and system upgrade kits upon shipment. The Company generally recognizes revenue related to services upon completion of the services requested by a customer order. The Company recognizes 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 deferred revenue and deferred costs are recognized in deferred profit on the Consolidated Balance Sheet.

*Inventory Valuation:* Inventories are stated at the lower of cost or market using standard costs that approximate actual costs on a first-in, first-out basis. Finished goods are reported as inventories until the point of title transfer to the customer. Unless specified in the terms of sale, title generally transfers at the physical transfer of the products to the freight carriers. Transfer of title for shipments to Japanese customers occurs at the time of customer acceptance.

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

*Warranty:* Typically, the sale of semiconductor capital equipment includes providing parts and service warranties to customers as part of the overall price of the system. The Company provides standard warranties for its systems. The Company records a provision for estimated warranty expenses to cost of sales for each system when it recognizes revenue. The Company does not maintain general or unspecified reserves; all warranty reserves are related to specific systems. All actual or estimated parts and labor costs incurred in subsequent periods are charged to those established reserves on a system-by-system basis.

While the Company periodically monitors the performance and cost of warranty activities, if actual costs incurred are different than its estimates, the Company may recognize adjustments to provisions in the period in which those differences arise or are identified. In addition to the provision of standard warranties, the Company offers customer-paid extended warranty services. Revenues for extended maintenance and warranty services with a fixed payment amount are recognized on a straight-line basis over the term of the contract. Related costs are recorded as incurred.

*Equity-based Compensation — Employee Stock Purchase Plan ("ESPP") and Employee Stock Plans:* The Company recognizes the fair value of equity-based compensation expense. The Company determines the fair value of its restricted stock units ("RSUs"), excluding market-based performance RSUs, based upon the fair market value of Company's common stock at the date of grant, discounted for dividends. The Company estimates the fair value of its market-based performance RSUs using a Monte Carlo simulation model at the date of the grant. The Company estimates the fair value of its stock options and ESPP awards using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each award. The Company amortizes the fair value of equity-based awards over the vesting periods of the award and the Company has elected to use the straight-line method of amortization.

The Company makes quarterly assessments of the adequacy of its tax credit pool related to equity-based compensation to determine if there are any deficiencies that it is required to recognize in the Company's Condensed Consolidated Statements of Operations. The Company will only recognize a benefit from equity-based compensation in paid-in-capital if it realizes an incremental tax benefit after all other tax attributes currently available to us have been utilized. In addition, the Company has elected to account for the indirect benefits of equity-based compensation on the research tax credit through the income statement rather than through paid-in-capital. The Company 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. The Company tracks 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. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more-likely-than-not to be realized. Realization of our net deferred tax assets is dependent on future taxable income. The Company believes it is more-likely-than-not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at the time. In the event that the Company determines that it would not be able to realize all or part of our net deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if the Company 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.

The Company recognizes 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. The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense.

*Goodwill and Intangible Assets:* The valuation of intangible assets acquired in a business combination requires the use of management estimates including but not limited to estimating future expected cash flows from assets acquired and determining discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Estimates associated with the accounting for acquisitions may change as additional information becomes available.

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. Each component of the Company for which discrete financial information is available and for which management regularly reviews the results of operations is considered a reporting unit. All goodwill acquired in a business combination is assigned to one or more reporting units as of the acquisition date. Goodwill is assigned to the Company's reporting units that are expected to benefit from the synergies of the combination. The goodwill assigned to a reporting unit is the difference between the acquisition consideration assigned to the reporting unit on a relative fair value basis and the fair value of acquired assets and liabilities that can be specifically attributed to the reporting unit. The Company tests goodwill and identifiable intangible assets with indefinite useful lives for impairment at least annually. The Company amortizes intangible assets with estimable useful lives over their respective estimated useful lives, and the Company reviews for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable and the carrying amount exceeds its fair value.

The Company reviews goodwill at least annually for impairment. If certain events or indicators of impairment occur between annual impairment tests, the Company would perform an impairment test at that date. In testing for a potential impairment of goodwill, the Company: (1) allocates goodwill to its reporting units to which the acquired goodwill relates; (2) estimates the fair value of its reporting units; and (3) determines the carrying value (book value) of those reporting units. Furthermore, if the estimated fair value of a reporting unit is less than the carrying value, the Company must estimate the fair value of all identifiable assets and liabilities of that reporting unit, in a manner similar to a purchase price allocation for an acquired business. This can require independent valuations of certain internally generated and unrecognized intangible assets such as in-process R&D and developed technology. Only after this process is completed can the amount of goodwill impairment, if any, be determined. In the Company's goodwill impairment process it first assesses qualitative factors to determine whether it is necessary to perform a quantitative analysis. The Company does not calculate the fair value of a reporting unit unless the Company determines, based on a qualitative assessment, that it is more-likely-than-not that its fair value is less than its carrying amount. The Company performed the most recent annual goodwill impairment analysis as of the first day of its fourth quarter of fiscal year 2015, March 30, 2015, resulted in an impairment charge on the Company's single-wafer clean reporting unit of approximately \$79.4 million. The Company did not record any goodwill impairment in fiscal years 2014 or 2013.

The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. The Company determines the fair value of its reporting units by using an income approach. Under the income approach, the Company determines fair value based on estimated future cash flows

of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn.

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

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

The Company reviews indefinite-lived intangible assets for an impairment annually, or when events or circumstances indicate the carrying value may not be recoverable. Factors that may be a change in circumstances, indicating the carrying value of amortizable intangible assets may not be recoverable, include a reduced future cash flow estimate, and slower growth rates in the industry segment in which the Company participates. The Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets is less than their carrying value. If the sum is less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. The Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The Company recognized a \$4.0 million impairment charge related to indefinite-lived intangible asset during the year ended June 29, 2014. The Company did not record an impairment charge on indefinite-lived intangible assets during the years ended June 28, 2015 or June 30, 2013.

*Impairment of Long-Lived Assets (Excluding Goodwill and indefinite-lived Intangibles):* The Company routinely considers whether indicators of impairment of long-lived assets are present. If such indicators are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the assets is less than their carrying value. If the sum is less, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. The Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which the Company depreciates over the remaining estimated useful life of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value. The Company recorded a \$9.8 million and \$7.6 million impairment loss on long-lived assets during the years ended June 28, 2015 and June 29, 2014, respectively. The Company did not record any impairment loss in the year ended June 30, 2013.

*Fiscal Year:* The Company follows a 52/53-week fiscal reporting calendar, and its fiscal year ends on the last Sunday of June each year. The Company's most recent fiscal years ended on June 28, 2015, June 29, 2014, and June 30, 2013 and included 52 weeks, 52 weeks, and 53 weeks, respectively.

*Principles of Consolidation:* The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

*Cash Equivalents and Short-Term Investments:* Investments purchased with an original maturity of three months or less are considered cash equivalents. The Company also invests in certain mutual funds, which include equity and fixed income securities, related to its obligations under its deferred compensation plan, and such investments are classified as trading securities on the consolidated balance sheets. All of the Company's other short-term investments are classified as available-for-sale at the respective balance sheet dates. The Company accounts for its investment portfolio at fair value. Investments classified as trading securities are recorded at fair value based upon quoted market prices. Differences between the cost and fair value of trading securities are recognized as "Other income (expense)" in the Consolidated Statement of Operations. The investments classified as available-for-sale are recorded at fair value based upon quoted market prices, and difference between the cost and fair value of available-for-sale securities is presented as a component of accumulated other comprehensive income (loss). Unrealized losses on available-for-sale securities are charged against "Other income (expense)" when a decline in fair value is determined to be other-than-temporary. The Company considers several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (i) the extent to which the fair value is less than cost basis, (ii) the financial condition and near term prospects of the issuer, (iii) the length of time a security is in an unrealized loss position and (iv) the Company's ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The Company's ongoing consideration of these factors could result in additional impairment charges in the future, which could adversely affect its results of operation. An other-than-temporary impairment is triggered when there is an intent to sell the security, it is more-likely-than-not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Other-than-temporary impairments attributed to credit losses are recognized in the income statement. The specific identification method is used to determine the realized gains and losses on investments.

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

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

*Derivative Financial Instruments:* In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. The Company's policy is to mitigate the effect of these exchange rate fluctuations on certain foreign currency denominated business exposures. The Company has a policy that allows the use of derivative financial instruments to hedge foreign currency exchange rate fluctuations on forecasted revenue and expenses and net monetary assets or liabilities denominated in various foreign currencies. The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values. The Company does not use derivatives for trading or speculative purposes. The Company does not believe that it is exposed to more than a nominal amount of credit risk in its interest rate and foreign currency hedges, as counterparties are large, global and well-capitalized financial institutions. The Company's exposures are in liquid currencies (Japanese yen, Swiss francs, euros, Taiwanese dollars, and Korean won), so there is minimal risk that appropriate derivatives to maintain the Company's hedging program would not be available in the future.

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

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

*Guarantees:* The Company has certain operating leases that contain provisions whereby the properties subject to the operating leases may be remarketed at lease expiration. The Company has guaranteed to the lessor an amount approximating the lessor's investment in the property. Also, the Company's guarantees generally include certain indemnifications to its lessors under operating lease agreements for environmental matters, potential overdraft protection obligations to financial institutions related to one of the Company's subsidiaries, indemnifications to the Company's customers for certain infringement of third-party intellectual property rights by its products and services, and the Company's warranty obligations under sales of its products.

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

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

In July 2013, the FASB released Accounting Standards Update 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The new standard requires that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss carryforward or other tax credit carryforward when settlement in this manner is available under the tax law. The Company adopted this standard during the fiscal year without significant impact on its financial position, results of operations, or cash flows.

In April 2014, the FASB released Accounting Standards Update 2014-8 "Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity." The new standard re-defines discontinued operations and requires only those disposals of components of an entity, including classifications as held for sale, that represent a strategic shift that has, or will have, a major effect on an entity's operations and financial results to be reported as discontinued operations. In addition, the new standard expands the disclosure requirements of discontinued operations. The Company adopted this standard during the fiscal year without significant impact on its financial position, results of operations, or cash flows.

In May 2014, the FASB released Accounting Standards Update 2014-9 "Revenue from Contracts with Customers" to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of the standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new standard defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company is required to adopt this standard starting in the first quarter of fiscal year 2019 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within the standard; or

(ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined per the standard. The Company has not yet selected a transition method, and is in the process of determining the impact that the new standard will have on its Consolidated Financial Statements.

In April 2015, the FASB released Accounting Standards Update 2015-3 “Interest — Imputation of Interest.” The amendment requires that debt issuance costs related to recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company is required to adopt this standard starting in the first quarter of fiscal year 2017, and does not anticipate the adoption will have a material impact on its Consolidated Financial Statements.

#### Note 4: Reclassifications

Certain amounts in fiscal years 2014 and 2013 financial statements have been reclassified to conform to the fiscal year 2015 presentation.

#### Note 5: 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 Common Stock at a set price. An RSU award is an agreement to issue a set number of shares of Common Stock at the time of vesting. The Company’s options and RSU awards typically vest over a period of three years or less, although awards assumed in connection with the acquisition of Novellus Systems, Inc. (“Novellus”), 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 benefits in the Condensed Consolidated Statements of Operations:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
	(in thousands)		
Equity-based compensation expense	\$135,354	\$103,700	\$99,310
Income tax benefit recognized in the related to equity-based compensation	\$ 23,660	\$ 16,937	\$17,647
Income tax benefit realized from the exercise and vesting of options and RSUs	\$ 40,401	\$ 31,993	\$21,625

The estimated fair value of the Company’s equity-based awards, less expected forfeitures, is amortized over the awards’ vesting term on a straight-line basis.

#### Stock Options and RSUs

The Lam Research Corporation 2007 Stock Incentive Plan, as amended and restated, and 2011 Stock Incentive Plan, as amended and restated (collectively the “Stock Plans”), provide for the grant of non-qualified equity-based

awards to eligible employees, consultants and advisors, and non-employee directors of the Company and its subsidiaries. A summary of stock plan transactions is as follows:

	Options Outstanding		Restricted Stock Units Outstanding	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Fair Market Value at Grant
June 24, 2012	3,902,077	\$25.14	4,331,478	\$41.01
Granted	288,867	\$42.59	2,563,670	\$38.76
Exercised	(1,546,028)	\$25.47	N/A	N/A
Canceled	(73,993)	\$26.24	(299,079)	\$39.70
Vested restricted stock	N/A	N/A	(1,754,273)	\$42.52
June 30, 2013	2,570,923	\$26.87	4,841,796	\$39.32
Granted	166,455	\$51.76	2,811,602	\$53.21
Exercised	(1,403,019)	\$24.75	N/A	N/A
Canceled	(2,473)	\$30.21	(281,476)	\$41.16
Vested restricted stock	N/A	N/A	(1,736,453)	\$40.39
June 29, 2014	1,331,886	\$32.20	5,635,469	\$45.83
Granted	76,659	\$80.60	1,804,937	\$79.74
Exercised	(564,558)	\$31.05	N/A	N/A
Cancelled	(8,155)	\$29.32	(174,879)	\$50.16
Vested restricted stock	N/A	N/A	(2,311,439)	\$41.17
June 28, 2015	<u>835,832</u>	\$37.44	<u>4,954,088</u>	\$60.13

Outstanding and exercisable options presented by price range at June 28, 2015 were as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
\$9.44-\$19.05	130,682	0.52	\$12.94	130,682	\$12.94
\$21.04-\$25.60	89,907	0.30	\$22.13	86,845	\$22.08
\$26.87-\$29.68	193,978	0.86	\$29.26	190,025	\$29.32
\$31.45-\$35.68	30,042	0.21	\$32.94	30,042	\$32.94
\$42.41-\$80.60	391,223	2.53	\$53.54	185,101	\$43.58
\$9.44-\$51.76	<u>835,832</u>	4.42	\$37.44	<u>622,695</u>	\$29.29

As of June 28, 2015, there were a total of 5,789,920 shares subject to options and RSUs issued and outstanding under the Company's Stock Plans. As of June 28, 2015, there were a total of 6,572,350 shares available for future issuance under the Stock Plans.

### Stock Options

The fair value of the Company's stock options granted during fiscal years 2015, 2014, and 2013, was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each award:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
Expected volatility	34.45%	35.28%	36.60%
Risk-free interest rate	1.46%	1.39%	0.81%
Expected term (years)	4.80	4.78	4.79
Dividend yield	0.89%	—	—

The year-end intrinsic value relating to stock options for fiscal years 2015, 2014, and 2013 is presented below:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
	(in thousands)		
Intrinsic value - options outstanding	\$37,961	\$46,283	\$44,919
Intrinsic value - options exercisable	\$33,360	\$31,653	\$36,870
Intrinsic value - options exercised	\$26,806	\$41,379	\$25,430

As of June 28, 2015, there was \$2.9 million of total unrecognized compensation expense related to unvested stock options granted and outstanding; that expense is expected to be recognized over a weighted-average remaining vesting period of 2.1 years.

### Restricted Stock Units

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, discounted for dividends. As of June 28, 2015, there was \$197.6 million of total unrecognized compensation expense related to all unvested RSUs granted; that expense is expected to be recognized over a weighted-average remaining vesting period of 2.1 years.

During the fiscal years 2015 and 2014, the Company issued certain RSUs with both a market condition and a service condition (market-based performance RSUs, or "market-based PRSUs"). Based upon the terms of such awards, the number of shares that can be earned over the performance periods is based on the Company's Common Stock price performance compared to the market price performance of the Philadelphia Semiconductor Sector Index ("SOX"), ranging from 0% to 150% of target. The stock price performance or market price performance is measured using the closing price for the 50-trading days prior to the dates the performance period begins and ends. The target number of shares represented by the market-based PRSUs is increased by 2% of target for each 1% that Common Stock price performance exceeds the market price performance of the SOX index. The result of the vesting formula is rounded down to the nearest whole number. Total stockholder return is a measure of stock price appreciation in this performance period. As of June 28, 2015, 0.9 million market-based PRSUs were outstanding. These market-based PRSUs generally vest two or three years from the grant date and require continued employment. Stock compensation expense for the market-based PRSUs was \$13.5 million and \$3.8 million for the years ended June 28, 2015 and June 29, 2014, respectively. No market-based PRSUs were awarded in earlier periods.

The fair value of the Company's market-based PRSUs granted during fiscal years 2015 and 2014, was calculated using a Monte Carlo simulation model at the date of the grant. This model requires the input of highly subjective assumptions, including expected stock price volatility and the estimated life of each award:

	Year Ended	
	June 28, 2015	June 29, 2014
Expected volatility	27.93%	29.27%
Risk-free interest rate	1.05%	0.55%
Expected term (years)	2.98	2.67
Dividend yield	0.89%	—

#### ESPP

The 1999 Employee Stock Purchase Plan (the "1999 ESPP") allows employees to designate a portion of their base compensation to be deducted and used to purchase the Company's Common Stock at a purchase price per share of the lower of 85% of the fair market value of the Company's Common Stock on the first or last day of the applicable purchase period. Typically, each offering period lasts 12 months and comprises three interim purchase dates. The Plan Administrator (the Compensation Committee of the Board) is authorized to set a limit on the number of shares a plan participant can purchase on any single plan exercise date. During fiscal years 2015, 2014, and 2013, there was no increase to the number of shares of Lam Research Common Stock reserved for issuance under the 1999 ESPP.

During fiscal year 2015, a total of 943,055 shares of the Company's Common Stock were sold to employees under the 1999 ESPP. At June 28, 2015, 7,434,523 shares were available for purchase under the 1999 ESPP.

The 1999 ESPP rights were valued using the Black-Scholes model. During fiscal years 2015, 2014, and 2013, the 1999 ESPP was valued using the following weighted-average assumptions:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
Expected term (years)	0.67	0.68	0.64
Expected stock price volatility	27.60%	30.24%	32.42%
Risk-free interest rate	0.07%	0.07%	0.15%
Dividend Yield	0.69%	—	—

As of June 28, 2015, there was \$2.6 million of total unrecognized compensation cost related to the 1999 ESPP that is expected to be recognized over a remaining vesting period of 2 months.

**Note 6: Other Income (Expense), Net**

The significant components of other income (expense), net, were as follows:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
	(in thousands)		
Interest income	\$ 19,268	\$ 12,540	\$ 14,737
Interest expense	(73,682)	(61,692)	(60,408)
Gains on deferred compensation plan related assets, net	9,071	9,559	9,764
Foreign exchange gains (losses), net	2,331	1,529	(6,808)
Other, net	(4,177)	668	(8,698)
	<u>\$(47,189)</u>	<u>\$(37,396)</u>	<u>\$(51,413)</u>

**Note 7: Income Taxes**

The components of income (loss) before income taxes were as follows:

	June 28, 2015	June 29, 2014	June 30, 2013
		(in thousands)	
United States	\$ 72,728	\$ 78,076	\$(46,392)
Foreign	668,122	645,287	113,050
	<u>\$740,850</u>	<u>\$723,363</u>	<u>\$ 66,658</u>

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

	June 28, 2015	June 29, 2014	June 30, 2013
		(in thousands)	
Federal:			
Current	\$16,795	\$31,762	\$ (1,096)
Deferred	12,115	10,692	(60,172)
	<u>\$28,910</u>	<u>\$42,454</u>	<u>\$(61,268)</u>
State:			
Current	\$ 1,376	\$ 3,192	\$ 3,332
Deferred	158	(869)	(6,351)
	<u>\$ 1,534</u>	<u>\$ 2,323</u>	<u>\$ (3,019)</u>
Foreign:			
Current	\$61,551	\$49,273	\$ 20,640
Deferred	(6,722)	(2,976)	(3,574)
	<u>\$54,829</u>	<u>\$46,297</u>	<u>\$ 17,066</u>
Total Provision (Benefit) for Income Taxes	<u>\$85,273</u>	<u>\$91,074</u>	<u>\$(47,221)</u>

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

	June 28, 2015	June 29, 2014
(in thousands)		
Deferred tax assets:		
Tax carryforwards	\$ 129,234	\$ 170,028
Allowances and reserves	131,079	126,895
Equity-based compensation	21,086	18,019
Inventory valuation differences	15,167	16,257
Other	13,942	12,661
Gross deferred tax assets	310,508	343,860
Valuation allowance	(85,620)	(74,439)
Net deferred tax assets	224,888	269,421
Deferred tax liabilities:		
Intangible Assets	(64,725)	(87,329)
Convertible debt	(130,991)	(117,112)
Temporary differences for captial assets	(37,635)	(32,350)
Amortization of goodwill	(12,502)	(11,409)
Unremitted earnings of foreign subsidiaries	(66,412)	(40,286)
Other	(6,100)	(5,673)
Gross deferred tax liabilities	(318,365)	(294,159)
Net deferred tax liabilities	\$ (93,477)	\$ (24,738)

The change in the gross deferred tax assets, gross deferred tax liabilities and valuation allowance between fiscal year 2015 and 2014 is primarily due to the reclassification of deferred tax assets as a result of the adoption of Accounting Standards Updated 2013-11, accrual for future tax liabilities due to the expected repatriation of foreign earnings of certain foreign subsidiaries for 2015, and convertible debt accretion, offset by a decrease in deferred tax liabilities related to amortization of intangible assets. Realization of the Company's net deferred tax assets is based upon the weighting of available evidence, including such factors as the recent earnings history and expected future taxable income. The Company believes it is more-likely-than-not that such deferred tax assets will be realized with the exception of \$85.6 million primarily related to California and certain foreign deferred tax assets.

The provisions related to the tax accounting for equity-based compensation prohibit the recognition of a deferred tax asset for an excess benefit that has not yet been realized. As a result, the Company will only recognize an excess benefit from equity-based compensation in additional paid-in-capital if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized. In addition, the Company continued to elect to account for the indirect benefits of equity-based compensation such as the research and development tax credit through the Consolidated Statement of Operations.

At June 28, 2015, the Company had federal net operating loss carryforwards of approximately \$126.3 million. The majority of these losses will begin to expire in fiscal year 2019, and are subject to limitations on their utilization.

As of June 28, 2015, the Company had state net operating loss carryforwards of approximately \$36.7 million. If not utilized, the net operating loss carryforwards will begin to expire in fiscal year 2016, and are subject to limitations on their utilization.

At June 28, 2015, the Company had federal tax credit carryforwards of approximately \$134.3 million, of which \$19.2 million will begin to expire in fiscal year 2017 and \$113.3 million will begin to expire in fiscal year 2030. The remaining balance of \$1.8 million of credits may be carried forward indefinitely. The tax benefits relating to approximately \$20.3 million of federal tax credit carryforwards will be credited to additional paid-in-capital when recognized.

At June 28, 2015, the Company had state tax credit carryforwards of approximately \$236.4 million. Substantially all state tax credit carryforwards may be carried forward indefinitely.

At June 28, 2015, the Company had federal and state capital loss carryforwards of approximately \$12.0 million, which will begin to expire in fiscal year 2020.

At June 28, 2015, the Company had foreign net operating loss carryforwards of approximately \$31.2 million, of which approximately \$10.2 million may be carried forward indefinitely and \$21.0 million will begin to expire in fiscal year 2016.

A reconciliation of income tax expense provided at the federal statutory rate (35% in fiscal years 2015, 2014, and 2013) to actual income tax expense (benefit) is as follows:

	June 28, 2015	June 29, 2014	June 30, 2013
(in thousands)			
Income tax expense computed at federal statutory rate	\$ 259,297	\$ 253,177	\$ 23,332
State income taxes, net of federal tax benefit	(8,611)	1,884	(13,588)
Foreign income taxed at different rates	(175,581)	(164,130)	(40,255)
Tax credits	(24,416)	(15,650)	(42,593)
State valuation allowance, net of federal tax benefit	8,594	(1,707)	11,538
Equity-based compensation	28,845	23,167	20,318
Other permanent differences and miscellaneous items	(2,855)	(5,667)	(5,973)
	<u>\$ 85,273</u>	<u>\$ 91,074</u>	<u>\$(47,221)</u>

Effective from fiscal year 2014 through June 2023, the Company has a 10 year tax ruling in Switzerland for one of its foreign subsidiaries. In the prior years, the Company had a tax holiday in Switzerland which was effective from fiscal year 2003 through June 2013. The impact of the tax ruling decreased taxes by approximately \$4.8 million, \$7.4 million and \$10.8 million for fiscal years 2015, 2014 and 2013, respectively. The benefit of the tax ruling on diluted earnings per share was approximately \$0.03 in fiscal year 2015, \$ 0.04 in fiscal year 2014 and \$0.06 in fiscal year 2013.

Unremitted earnings of the Company's foreign subsidiaries included in consolidated retained earnings aggregated to approximately \$3.3 billion at June 28, 2015. These earnings are indefinitely reinvested in foreign operations. If these earnings were remitted to the United States, they would be subject to U.S. and foreign withholding taxes of approximately \$859.0 million at current statutory rates. The Company's federal income tax provision includes U.S. income taxes on certain foreign-based income.

As of June 28, 2015, the total gross unrecognized tax benefits were \$363.6 million compared to \$352.1 million as of June 29, 2014 and \$333.1 million as of June 30, 2013. During fiscal year 2015, gross unrecognized tax benefits

increased by approximately \$11.4 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$276.8 million, \$269.4 million and \$257.7 million, as of June 28, 2015, June 29, 2014 and June 30, 2013 respectively. The aggregate changes in the balance of gross unrecognized tax benefits were as follows:

	(in thousands)
<b>Balance as of June 24, 2012</b>	<b>\$343,837</b>
Settlements and effective settlements with tax authorities	(3,422)
Lapse of statute of limitations	(51,422)
Increases in balances related to tax positions taken during prior periods	11,352
Decreases in balances related to tax positions taken during prior periods	(11,281)
Increases in balances related to tax positions taken during current period	35,170
Tax positions assumed in Novellus transaction	8,880
<b>Balance as of June 30, 2013</b>	<b>333,114</b>
Lapse of statute of limitations	(16,048)
Increases in balances related to tax positions taken during prior periods	6,225
Decreases in balances related to tax positions taken during prior periods	(4,182)
Increases in balances related to tax positions taken during current period	33,003
<b>Balance as of June 29, 2014</b>	<b>352,112</b>
Settlements and effective settlements with tax authorities	(2,108)
Lapse of statute of limitations	(9,376)
Increases in balances related to tax positions taken during prior periods	3,729
Decreases in balances related to tax positions taken during prior periods	(12,615)
Increases in balances related to tax positions taken during current period	31,810
<b>Balance as of June 28, 2015</b>	<b>\$363,552</b>

The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense. The Company had accrued \$35.5 million, \$29.5 million and \$25.5 million cumulatively, for gross interest and penalties as of June 28, 2015, June 29, 2014 and June 30, 2013, respectively.

The Company is subject to audits by state and foreign tax authorities. The Company is unable to make a reasonable estimate as to when cash settlements, if any, with the relevant taxing authorities will occur.

The Company files U.S. federal, U.S. state, and foreign income tax returns. As of June 28, 2015, tax years 2004-2014 remain subject to examination in the jurisdictions where the Company operates.

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

#### **Note 8: 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, restricted stock units (“RSUs”), and Convertible Notes. The following table reconciles the numerators and denominators of the basic and diluted computations for net income per share.

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
(in thousands, except per share data)			
<b>Numerator:</b>			
Net income	\$655,577	\$632,289	\$113,879
<b>Denominator:</b>			
Basic average shares outstanding	159,629	164,741	168,932
<b>Effect of potential dilutive securities:</b>			
Employee stock plans	3,193	2,864	2,558
Convertible notes	13,530	6,898	1,940
Warrants	715	—	—
Diluted average shares outstanding	177,067	174,503	173,430
Net income per share - basic	\$ 4.11	\$ 3.84	\$ 0.67
Net income per share - diluted	\$ 3.70	\$ 3.62	\$ 0.66

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:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
(in thousands)			
Number of options and RSUs excluded	330	78	534

Diluted shares outstanding include the effect of the Convertible Notes. Diluted shares outstanding do not include any effect resulting from note hedges associated with the Company’s 2016 or 2018 Notes (as described in Note 14) as their impact would have been anti-dilutive.

## Note 9: Financial Instruments

### Fair Value

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

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

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

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

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

The Company's primary financial instruments include cash and 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 and cash equivalents, 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 14 to the Consolidated Financial Statements for additional information regarding the fair value of the Company's Convertible Notes and Senior Notes.

### Investments

The following table sets forth the Company's cash, cash equivalents, short-term investments, restricted cash and investments, and other assets measured at fair value on a recurring basis as of June 28, 2015 and June 29, 2014:

	June 28, 2015							
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	(Reported Within)			
					Cash and Cash Equivalents	Short-Term Investments	Restricted Cash & Investments	Other Assets
(in thousands)								
<b>Cash</b>	\$ 276,663	\$ —	\$ —	\$ 276,663	\$ 271,452	\$ —	\$ 5,211	\$ —
<b>Level 1:</b>								
Time Deposit	177,567	—	—	177,567	44,738	—	132,829	—
Money Market Funds	1,177,875	—	—	1,177,875	1,177,875	—	—	—
US Treasury and Agencies	349,009	72	(861)	348,220	—	315,291	32,929	—
Mutual Funds	30,584	2,926	(47)	33,463	—	—	—	33,463
<b>Level 1 Total</b>	<b>\$1,735,035</b>	<b>\$2,998</b>	<b>\$ (908)</b>	<b>\$1,737,125</b>	<b>\$1,222,613</b>	<b>\$ 315,291</b>	<b>\$165,758</b>	<b>\$33,463</b>
<b>Level 2:</b>								
Municipal Notes and Bonds	659,550	429	(335)	659,644	7,474	652,170	—	—
US Treasuries and Agencies	4,007	—	(4)	4,003	—	4,003	—	—
Government-Sponsored Enterprises	53,612	2	(249)	53,365	—	53,365	—	—
Foreign Government Bonds	50,336	31	(161)	50,206	—	50,206	—	—
Corporate Notes and Bonds	1,329,587	685	(3,797)	1,326,475	—	1,326,475	—	—
Mortgage Backed Securities - Residential	32,231	72	(292)	32,011	—	32,011	—	—
Mortgage Backed Securities - Commercial	141,988	44	(606)	141,426	—	141,426	—	—
<b>Level 2 Total</b>	<b>\$2,271,311</b>	<b>\$1,263</b>	<b>\$ (5,444)</b>	<b>\$2,267,130</b>	<b>\$ 7,474</b>	<b>\$2,259,656</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Total</b>	<b>\$4,283,009</b>	<b>\$4,261</b>	<b>\$ (6,352)</b>	<b>\$4,280,918</b>	<b>\$1,501,539</b>	<b>\$2,574,947</b>	<b>\$170,969</b>	<b>\$33,463</b>

June 29, 2014

	(Reported Within)							
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Restricted Cash & Investments	Other Assets
(in thousands)								
<b>Cash</b>	<b>\$ 285,031</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 285,031</b>	<b>\$ 279,126</b>	<b>\$ —</b>	<b>\$ 5,905</b>	<b>\$ —</b>
<b>Level 1:</b>								
Time Deposit	132,549	—	—	132,549	—	—	132,549	—
Money Market Funds	1,168,261	—	—	1,168,261	1,168,261	—	—	—
US Treasury and Agencies	212,436	178	(27)	212,587	—	204,549	8,038	—
Mutual Funds	18,784	2,974	—	21,758	—	—	—	21,758
<b>Level 1 Total</b>	<b>\$1,532,030</b>	<b>\$3,152</b>	<b>\$ (27)</b>	<b>\$1,535,155</b>	<b>\$1,168,261</b>	<b>\$ 204,549</b>	<b>\$140,587</b>	<b>\$21,758</b>
<b>Level 2:</b>								
Municipal Notes and Bonds	334,329	1,108	(4)	335,433	5,290	330,143	—	—
Government-Sponsored Enterprises	27,666	41	(15)	27,692	—	27,692	—	—
Foreign Government Bonds	35,438	57	(28)	35,467	—	35,467	—	—
Corporate Notes and Bonds	874,540	2,034	(335)	876,239	—	876,239	—	—
Mortgage Backed Securities - Residential	27,067	59	(182)	26,944	—	26,944	—	—
Mortgage Backed Securities - Commercial	112,642	100	(809)	111,933	—	111,933	—	—
<b>Level 2 Total</b>	<b>\$1,411,682</b>	<b>\$3,399</b>	<b>\$(1,373)</b>	<b>\$1,413,708</b>	<b>\$ 5,290</b>	<b>\$1,408,418</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Total</b>	<b>\$3,228,743</b>	<b>\$6,551</b>	<b>\$(1,400)</b>	<b>\$3,233,894</b>	<b>\$1,452,677</b>	<b>\$1,612,967</b>	<b>\$146,492</b>	<b>\$21,758</b>

The Company accounts for its investment portfolio at fair value. Realized gains (losses) for investment sales are specifically identified. Management assesses the fair value of investments in debt securities that are not actively traded through consideration of interest rates and their impact on the present value of the cash flows to be received from the investments. The Company also considers whether changes in the credit ratings of the issuer could impact the assessment of fair value. Net realized gains (losses) on investments included other-than-temporary impairment charges of \$3.7 million in fiscal year 2013. There were no other-than-temporary impairment charges in fiscal year 2015 or 2014. Additionally, gross realized gains/(losses) from sales of investments were \$2.8 million and \$(2.1) million in fiscal year 2015, \$1.5 million and \$(2.0) million in fiscal year 2014, and \$1.6 million and \$(1.5) million in fiscal year 2013, respectively.

The following is an analysis of the Company's cash, cash equivalents, short-term investments, and restricted cash and investments in unrealized loss positions:

	June 28, 2015					
	Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in thousands)					
Municipal Notes and Bonds	\$ 272,388	\$ (335)	\$ —	\$ —	\$ 272,388	\$ (335)
US Treasury & Agencies	296,237	(865)	—	—	296,237	(865)
Retail Funds	3,532	(47)	—	—	3,532	(47)
Government-Sponsored Enterprises	49,184	(249)	—	—	49,184	(249)
Foreign Government Bonds	34,882	(161)	—	—	34,882	(161)
Corporate Notes and Bonds	889,064	(3,750)	16,586	(47)	905,650	(3,797)
Mortgage Backed Securities - Residential	20,913	(196)	2,190	(96)	23,103	(292)
Mortgage Backed Securities - Commercial	100,388	(431)	19,729	(175)	120,117	(606)
	<u>\$1,666,588</u>	<u>\$(6,034)</u>	<u>\$38,505</u>	<u>\$(318)</u>	<u>\$1,705,093</u>	<u>\$(6,352)</u>

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

	Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	\$1,651,592	\$1,651,673
Due after one year through five years	1,944,674	1,940,529
Due in more than five years	379,496	378,590
	<u>\$3,975,762</u>	<u>\$3,970,792</u>

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

### ***Derivative Instruments and Hedging***

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

### ***Cash Flow Hedges***

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 and Korean won-denominated expenses. The Company's policy is to mitigate the foreign exchange risk arising from the fluctuations in the value of these non-U.S. dollar denominated transactions or cash flows through a foreign currency cash flow hedging program, using foreign currency forward contracts that generally expire within twelve months and no later than 24 months. These foreign currency forward contracts are designated as cash flow hedges and are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gains or losses included in accumulated other comprehensive income (loss) and subsequently recognized in revenue/expense in the same period the hedged items are recognized.

In addition, during the twelve months ended June 28, 2015, the Company entered into and settled a series of forward-starting interest rate swap agreements, with a total notional value of \$375 million, to hedge against the variability of cash flows due to changes in the benchmark interest rate of fixed rate debt. These instruments were designated as cash flow hedges at inception and were settled in conjunction with the issuance of debt during the three months ended March 29, 2015. The effective portion of the contracts' loss is included in accumulated other comprehensive (loss) and will amortize into income as the hedged item impacts earnings.

At inception and at each quarter end, hedges are tested prospectively and retrospectively for effectiveness using regression analysis. Changes in the fair value of the forward contracts due to changes in time value are excluded from the assessment of effectiveness and are recognized in revenue or expense 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 material gains or losses during the twelve months ended June 28, 2015 or June 29, 2014 associated with ineffectiveness or forecasted transactions that failed to occur.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges must be tested to demonstrate an expectation of providing highly effective offsetting changes to future cash flows on hedged transactions. When derivative instruments are designated and qualify as effective cash flow hedges, the Company recognizes effective changes in the fair value of the hedging instrument within accumulated other comprehensive income (loss) until the hedged exposure is realized. Consequently, with the exception of excluded time value and hedge ineffectiveness recognized, the Company's results of operations are not subject to fluctuation as a result of changes in the fair value of the derivative instruments. If hedges are not highly effective or if the Company does not believe that the underlying hedged forecasted transactions will occur, the Company may not be able to account for its derivative instruments as cash flow hedges. If this were to occur, future changes in the fair values of the Company's derivative instruments would be recognized in earnings. Additionally, related amounts previously recorded in other comprehensive income would be reclassified to income immediately. As of June 28, 2015, the Company had losses of \$2.9 million accumulated in other comprehensive income, net of tax, including, \$0.2 million gains related to foreign exchange which it expects to reclassify from other comprehensive income into earnings over the next 12 months and \$3.1 million losses related to interest rate contracts which it expects to reclassify from other comprehensive income into earnings over the next 9.7 years.

#### *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 third party accounts receivables, accounts payables and 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, which are also recorded in other income (expense).

As of June 28, 2015, the Company had the following outstanding foreign currency forward contracts that were entered into under its cash flow and balance sheet hedge program:

	Derivatives Designated as Hedging Instruments:		Derivatives Not Designated as Hedging Instruments:	
	Buy Contracts	Sell Contracts	Buy Contracts	Sell Contracts
(in thousands)				
<b>Foreign Currency Forward Contracts</b>				
Japanese yen	\$ —	\$18,946	\$ —	\$49,924
Swiss franc	—	—	—	3,346
Euro	34,377	—	4,049	—
Korean won	7,269	—	8,945	—
Taiwan dollar	—	—	33,239	11,162
	<u>\$41,646</u>	<u>\$18,946</u>	<u>\$46,233</u>	<u>\$64,432</u>

The fair value of derivatives instruments in the Company's consolidated balance sheet as of June 28, 2015 and June 29, 2014 were as follows:

	June 28, 2015				June 29, 2014			
	Fair Value of Derivative Instruments (Level 2)				Fair Value of Derivative Instruments (Level 2)			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(in thousands)								
<b>Derivatives designated as hedging instruments:</b>								
Foreign exchange forward contracts	Prepaid expense and other assets	\$3,388	Accrued liabilities	\$ 957	Prepaid expense and other assets	\$ 483	Accrued liabilities	\$805
<b>Derivatives not designated as hedging instruments:</b>								
Foreign exchange forward contracts	Prepaid expense and other assets	8	Accrued liabilities	960	Prepaid expense and other assets	1,109	Accrued liabilities	118
<b>Total derivatives</b>		<u>\$3,396</u>		<u>\$1,917</u>		<u>\$1,592</u>		<u>\$923</u>

Under the master agreements with the respective counterparties to the Company's foreign exchange contracts, subject to applicable requirements, the Company is allowed to net settle transactions of the same currency with a single net amount payable by one party to the other. However, the Company has elected to present the derivative assets and derivative liabilities on a gross basis in the Company's balance sheet. As of June 28, 2015, the potential effect of rights of set-off associated with the above foreign exchange contracts would be an offset to both assets and liabilities by \$1.9 million, resulting in a net derivative asset of \$1.5 million. As of June 29, 2014, the potential effect of rights of set-off associated with the above foreign exchange contracts would be an offset to both assets and liabilities by \$0.5 million, resulting in a net derivative asset of \$1.1 million. The Company is not required to pledge, nor is the Company entitled to receive, cash collateral related to these derivative transactions.

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

Derivatives Designated as Hedging Instruments	Location of Gain (Loss) Recognized in or Reclassified into Income	Year Ended June 28, 2015			Year Ended June 29, 2014		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness
		Gain (Loss) Recognized in AOCI	Gain (Loss) Reclassified from AOCI into Income	Gain (Loss) Recognized in Income	Gain Recognized in AOCI	Gain Reclassified from AOCI into Income	Gain (Loss) Recognized in Income
		(in thousands)			(in thousands)		
Foreign Exchange Contracts	Revenue	\$13,678	\$11,375	\$ 258	\$7,939	\$ 9,027	\$277
Foreign Exchange Contracts	Cost of goods sold	(6,318)	(4,349)	(75)	812	2,393	(52)
Foreign Exchange Contracts	Selling, general, and administrative	(2,579)	(2,618)	(39)	318	1,087	(23)
Interest Rate Contracts	Other expense, net	(5,071)	(112)	(231)	—	—	—
		<u>\$ (290)</u>	<u>\$ 4,296</u>	<u>\$ (87)</u>	<u>\$9,069</u>	<u>\$12,507</u>	<u>\$202</u>

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

Derivatives Not Designated as Hedging Instruments:	Location of Gain Recognized in Income	Year Ended	
		June 28, 2015	June 29, 2014
		Gain Recognized in Income	Gain Recognized in Income
(in thousands)			
Foreign Exchange Contracts	Other income	\$1,784	\$8,205

#### 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 over-all portfolio of available-for-sale securities must maintain an average minimum rating of "AA-" or "Aa3" as rated by Standard and Poor's or Moody's Investor Services, respectively. To ensure diversification and minimize concentration, the Company's policy limits the amount of credit exposure with any one financial institution or commercial issuer.

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

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

As of June 28, 2015, four customers accounted for approximately 17%, 13%, 12%, and 11% of accounts receivable. As of June 29, 2014, four customers accounted for approximately 15%, 13%, 12%, and 12% of accounts receivable. No other customers accounted for more than 10% of accounts receivable.

#### Note 10: Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. System shipments to Japanese customers, for which 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:

	June 28, 2015	June 29, 2014
	(in thousands)	
Raw materials	\$566,645	\$449,623
Work-in-process	141,264	126,564
Finished goods	235,437	164,316
	<u>\$943,346</u>	<u>\$740,503</u>

#### Note 11: Property and Equipment

Property and equipment, net, consist of the following:

	June 28, 2015	June 29, 2014
	(in thousands)	
Manufacturing, engineering and office equipment	\$ 717,788	\$ 612,688
Computer equipment and software	137,623	131,184
Land	53,391	52,784
Buildings	238,631	199,544
Leasehold improvements	81,899	80,569
Furniture and fixtures	21,629	20,026
	<u>1,250,961</u>	<u>1,096,795</u>
Less: accumulated depreciation and amortization	<u>(629,543)</u>	<u>(553,299)</u>
	<u>\$ 621,418</u>	<u>\$ 543,496</u>

Depreciation expense, including amortization of capital leases, during fiscal years 2015, 2014, and 2013, was \$120.3 million, \$129.1 million, and \$126.5 million, respectively. During the fiscal year 2015, the Company invested \$12.7 million to purchase a commercial building in Fremont, California.

During the fiscal year 2014, the Company recorded an \$83.1 million gain on sale of real estate in the Consolidated Statement of Operations in fiscal year 2014. No significant gains on sale were realized in fiscal year 2015 or 2013.

#### Note 12: Goodwill and Intangible Assets

##### Goodwill

The balance of Goodwill decreased to \$1.4 billion as of June 28, 2015, as compared to, \$1.5 billion as of June 29, 2014. The primary cause of the decrease was recognition of a \$79.4 million impairment on the Company's single-wafer clean reporting unit during the quarter ended June 28, 2015. Uncertainty surrounding future revenue growth in certain products resulted in the estimated discounted cash flows falling below the carrying value of the goodwill balance. Following fiscal year 2015's impairment, there is no remaining balance of the Company's goodwill attributable to the single-wafer clean systems reporting unit.

Of the \$1.4 billion goodwill balance, \$61.1 million is tax deductible and the remaining balance is not tax deductible due to purchase accounting and applicable foreign law.

#### *Intangible Assets*

The following table provides the Company's intangible assets, other than goodwill, as of June 28, 2015:

	Gross	Accumulated Amortization	Net
	(in thousands)		
Customer relationships	\$ 615,490	\$(234,968)	\$380,522
Existing technology	643,919	(313,071)	330,848
Patents	33,553	(26,431)	7,122
Other intangible assets	35,914	(35,366)	548
Intangible assets subject to amortization	1,328,876	(609,836)	719,040
Development rights	9,100		9,100
Intangible assets not subject to amortization	9,100		9,100
Total intangible assets	<u>\$1,337,976</u>	<u>\$(609,836)</u>	<u>\$728,140</u>

The following table provides details of the Company's intangible assets, other than goodwill, as of June 29, 2014:

	Gross	Accumulated Amortization	Net
	(in thousands)		
Customer relationships	\$ 615,618	\$(169,162)	\$446,456
Existing technology	643,922	(224,246)	419,676
Patents	32,253	(24,407)	7,846
Other intangible assets	35,270	(35,270)	—
Intangible assets subject to amortization	1,327,063	(453,085)	873,978
In process research and development	11,000		11,000
Development rights	9,100		9,100
Intangible assets not subject to amortization	20,100		20,100
Total intangible assets	<u>\$1,347,163</u>	<u>\$(453,085)</u>	<u>\$894,078</u>

The Company recognized \$157.7 million, \$163.2 million, and \$177.6 million in intangible asset amortization expense during fiscal years 2015, 2014, and 2013, respectively. The Company recognized a \$9.8 million impairment of existing technology during the fiscal year 2015, resulting from current market demand for the technology. The Company recognized a \$4.0 million impairment of in process research and development during fiscal year 2014, due to the cancellation of a project.

The estimated future amortization expense of intangible assets, excluding those with indefinite lives, as of June 28, 2015 was as follows:

Fiscal Year	Amount (in thousands)
2016	\$156,074
2017	154,122
2018	152,918
2019	114,846
2020	49,700
Thereafter	91,380
	<u>\$719,040</u>

### Note 13: Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	June 28, 2015	June 29, 2014
	(in thousands)	
Accrued compensation	\$314,516	\$311,054
Warranty reserves	93,209	68,324
Income and other taxes payable	39,275	93,934
Dividend payable	47,659	29,240
Other	154,779	101,744
	<u>\$649,438</u>	<u>\$604,296</u>

### Note 14: Long Term Debt and Other Borrowings

#### Convertible Senior Notes

In May 2011, the Company issued and sold \$450 million in aggregate principal amount of 0.50% Convertible Senior Notes due May 2016 (the "2016 Notes") at par. At the same time, the Company issued and sold \$450 million in aggregate principal amount of 1.25% Convertible Senior Notes due May 2018 (the "2018 Notes") at par. The Company pays cash interest at an annual rate of 0.5% and 1.25%, respectively, on the 2016 Notes and the 2018 Notes, on a semi-annual basis on May 15 and November 15 of each year.

In June 2012, with the acquisition of Novellus, the Company assumed \$700 million in aggregate principal amount of 2.625% Convertible Senior Notes due May 2041 (the "2041 Notes," collectively with the 2016 Notes and the 2018 Notes, the "Convertible Notes"). The Company pays cash interest at an annual rate of 2.625%, on a semi-annual basis on May 15 and November 15 of each year on the 2041 Notes. The 2041 Notes also have a contingent interest payment provision that may require the Company to pay additional interest, up to 0.60% per year, based on certain thresholds, beginning with the semi-annual interest payment on May 15, 2021, and upon the occurrence of certain events, as outlined in the indenture governing the 2041 Notes.

The Company separately accounts for the liability and equity components of the Convertible Notes. The initial liability components of the Convertible Notes were valued based on the present value of the future cash flows using the Company's borrowing rate at the date of the issuance or assumption for similar debt instruments without the conversion feature, which equals the effective interest rate on the liability component disclosed in the following

table, respectively. The equity component was initially valued equal to the principle value of the notes, less the present value of the future cash flows using the Company's borrowing rate at the date of the issuance or assumption for similar debt instruments without a conversion feature, which equated to the initial debt discount.

Under certain circumstances, the Convertible Notes may be converted into shares of the Company's Common Stock. The number of shares each debenture is convertible into is based on conversion rates, disclosed in the following table. The conversion rates are adjusted for certain corporate events, including dividends on the Company's Common Stock. At June 28, 2015, the market value of the Company's Common Stock was greater than 130% of the Convertible Notes conversion prices for 20 or more of the 30 consecutive trading days preceding the quarter end. As a result, the Convertible Notes are convertible at the option of the bondholder. The carrying amount of the Convertible Notes was classified in current liabilities and a portion of the equity component, representing the unamortized debt discount, was classified in temporary equity on the Company's Consolidated Balance Sheets. Upon closure of the conversion period, the 2018 and 2041 Notes not converted will be reclassified back into noncurrent liabilities, the 2016 Notes will remain in current liabilities due to its scheduled maturity, and the temporary equity will be reclassified into permanent equity. At June 29, 2014 the 2041 Notes were convertible at the option of the bondholder.

As of June 28, 2015 and June 29, 2014, the Convertible Notes consisted of the following:

	June 28, 2015			June 29, 2014		
	2016 Notes	2018 Notes	2041 Notes	2016 Notes	2018 Notes	2041 Notes
	(in thousands, except years, percentages, conversion rate, and conversion price)					
Carrying value, long-term	\$ —	\$ —	\$ —	\$419,561	\$387,338	\$ —
Carrying value, current portion	435,493	402,320	520,313	—	—	516,586
Unamortized discount	14,507	47,680	179,622	30,439	62,662	183,349
Principal amount	<u>\$450,000</u>	<u>\$450,000</u>	<u>\$ 699,935</u>	<u>\$450,000</u>	<u>\$450,000</u>	<u>\$699,935</u>
Carrying amount of permanent equity component, net of tax	\$ 61,723	\$ 57,215	\$ 148,487	\$ 76,230	\$104,895	\$144,760
Carrying amount of temporary equity component, net of tax	\$ 14,507	\$ 47,679	\$ 179,622	\$ —	\$ —	\$183,349
Remaining amortization period (years)	0.9	2.9	25.9			
Effective interest rate on liability component	4.29%	5.27%	4.28%			
Fair Value of Notes (Level 2)	\$604,004	\$643,500	\$1,679,844			
Conversion rate (shares of common stock per \$1,000 principal amount of notes)	16.0806	16.0806	28.8585			
Conversion price (per share of common stock)	\$ 62.19	\$ 62.19	\$ 34.65			
If-converted value in excess of par value	\$149,598	\$149,598	\$ 973,758			

### **Convertible Note Hedges and Warrants**

Concurrent with the issuance of the 2016 Notes and 2018 Notes, the Company purchased a convertible note hedge and sold warrants. At expiration, the Company may, at its option, elect to settle the warrants on a net share basis. As of June 28, 2015, the warrants had not been exercised and remained outstanding. The exercise price is adjusted for certain corporate events, including dividends on the Company's Common Stock.

In conjunction with the convertible note hedge, counterparties agreed to sell to the Company shares of Common Stock equal to the number of shares issuable upon conversion of the 2016 Notes and 2018 Notes in full. The

convertible note hedge transactions will be settled in net shares and will terminate upon the earlier of the maturity date or the first day none of the respective notes remain 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 and 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 2016 Notes and 2018 Notes. The exercise price is adjusted for certain corporate events, including dividends on the Company's Common Stock.

The following table presents the details of the warrants and convertible note hedge arrangements as of June 28, 2015:

	2016 Notes	2018 Notes
	(shares in thousands)	
<b>Warrants:</b>		
Number of shares to be delivered upon exercise	7,236	7,236
Exercise price	\$70.40	\$75.10
Expiration date range	August 15 - October 21, 2016	August 15 - October 23, 2018
<b>Convertible Note Hedge:</b>		
Number of shares available from counterparties	7,236	7,236
Exercise price	\$62.19	\$62.19

### Senior Notes

On March 12, 2015, the Company completed a public offering of \$500 million aggregate principal amount of the Company's Senior Notes due March 2020 (the "2020 Notes") and \$500 million aggregate principal amount of the Company's Senior Notes due March 2025 (the "2025 Notes", together with the 2020 Notes, the "Senior Notes"). The Company will pay interest at an annual rate of 2.75% and 3.80%, respectively, on the 2020 Notes and 2025 Notes, on a semi-annual basis on March 15 and September 15 of each year, beginning September 15, 2015.

The Company may redeem the Senior Notes at a redemption price equal to 100% of the principal amount of such series ("par"), plus a "make whole" premium as described in the indenture in respect of the Senior Notes and accrued and unpaid interest before February 15, 2020, for the 2020 Notes and before December 15, 2024, for the 2025 Notes. The Company may redeem the Senior Notes at par, plus accrued and unpaid interest at any time on or after February 15, 2020 for the 2020 Notes and on or after December 24, 2024 for the 2025 Notes. In addition, upon the occurrence of certain events, as described in the indenture, the Company will be required to make an offer to repurchase the Senior Notes at a price equal to 101% of the principal amount of the Senior Notes, plus accrued and unpaid interest.

As of June 28, 2015 the Senior Notes consisted of the following:

	June 28, 2015	
	2020 Notes	2025 Notes
	(in thousands, except years)	
Carrying value, long-term	\$497,053	\$496,907
Unamortized discount	2,947	3,093
Principal amount	\$500,000	\$500,000
Remaining amortization period (years)	4.7	9.7
Fair Value of Notes (Level 2)	\$497,805	\$492,945

### **Interest Cost**

The following table presents the amount of interest cost recognized relating to both the contractual interest coupon and amortization of the debt discount, issuance costs, and effective portion of interest rate contracts with respect to the Senior Notes and the Convertible Notes during the twelve months ended June 29, 2015, June 28, 2014, and June 30, 2013.

	<b>Twelve Months Ended</b>		
	<b>June 28, 2015</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	(in thousands)		
Contractual interest coupon	\$36,074	\$26,248	\$26,248
Amortization of interest discount	34,886	33,065	31,560
Amortization of issuance costs	2,435	2,362	2,362
Amortization of interest rate contract	113	—	—
Total interest cost recognized	<u>\$73,508</u>	<u>\$61,675</u>	<u>\$60,170</u>

### **Revolving Credit Facility**

On March 12, 2014, the Company entered into a \$300 million revolving unsecured credit facility with a syndicate of lenders. The facility matures on March 12, 2019. The facility includes an option, subject to certain requirements, for the Company to request an increase in the facility of up to an additional \$200 million, for a potential total commitment of \$500 million. Proceeds from the credit facility can be used for general corporate purposes.

Interest on amounts borrowed under the credit facility is, at the Company's option, based on (i) a base rate, defined as the greatest of (a) prime rate, (b) Federal Funds rate plus 0.5%, or (c) one-month LIBOR plus 1.0%, plus a spread of 0.0% to 0.5%, or (ii) LIBOR plus a spread of 0.9% to 1.5%, in each case as the applicable spread is determined based on the rating of the Company's non-credit enhanced, senior unsecured long-term debt. Principal and any accrued and unpaid interest is due and payable upon maturity. Additionally, the Company will pay the lenders a quarterly commitment fee that varies based on the Company's rating described above. The credit facility contains certain restrictive covenants including maintaining a total consolidated indebtedness to consolidated capitalization ratio of no more than 0.5 to 1.0 and maintaining unrestricted or unencumbered cash and investments of no less than \$1.0 billion. As of June 28, 2015, the Company had no borrowings outstanding under the credit facility and was in compliance with all financial covenants.

## Contractual Obligations

The Company's contractual cash obligations relating to its Convertible Notes and other long-term debt as of June 28, 2015 were as follows:

	Long-term Debt
	(in thousands)
Payments due by period:	
2016*	\$1,599,935
2017	—
2018	—
2019	—
2020	500,000
Thereafter	500,000
Total	2,599,935
Current portion of long-term debt	1,599,935
Long-term debt	<u>\$1,000,000</u>

\* As noted above, the conversion periods for the Convertible Notes are open as of June 28, 2015. As there is the potential for conversion at the option of the holder, the principal balance of the 2018 and 2041 Notes have been included in the one year payment period. As of August 6, 2015, none of the Convertible Notes have been converted during fiscal year 2015 or 2014.

## Note 15: Retirement and Deferred Compensation Plans

### *Employee Savings and Retirement Plan*

The Company maintains a 401(k) retirement savings plan for its eligible employees in the United States. Each participant in the plan may elect to contribute from 1% to 75% of annual eligible earnings to the plan, subject to statutory limitations. The Company makes matching employee contributions in cash to the plan at the rate of 50% of the first 6% of earnings contributed. Employees participating in the 401(k) retirement savings plan are fully vested in the Company matching contributions, and investments are directed by participants. The Company made matching contributions of \$11.8 million, \$10.2 million, and \$8.7 million, in fiscal years 2015, 2014, and 2013, respectively.

### *Deferred Compensation Arrangements*

The Company has an unfunded, non-qualified deferred compensation plan whereby certain executives may defer a portion of their compensation. Participants earn a return on their deferred compensation based on their allocation of their account balance among various mutual funds. The Company controls the investment of these funds and the participants remain general creditors of the Company. Participants are able to elect the payment of benefits on a specified date at least three years after the opening of a deferral subaccount or upon retirement. Distributions are made in the form of lump sum or annual installments over a period of up to 20 years as elected by the participant. If no alternate election has been made, a lump sum payment will be made upon termination of a participant's employment with the Company. As of June 28, 2015 and June 29, 2014 the liability of the Company to the plan participants was \$113.4 million and \$93.8 million, respectively, which was recorded in accrued expenses and other current liabilities on the Consolidated Balance Sheets. As of June 28, 2015 and June 29, 2014 the Company had investments in the aggregate amount of \$138.9 million and \$116.7 million, respectively, which correlate to the deferred compensation obligations, which were recorded in other assets on the Consolidated Balance Sheets.

### *Postretirement Healthcare Plan*

The Company maintains a postretirement healthcare plan for certain executive and director retirees. Coverage continues through the duration of the lifetime of the retiree or the retiree's spouse, whichever is longer. The benefit obligation was \$30.2 million and \$29.0 million as of June 28, 2015 and June 29, 2014, respectively.

### **Note 16: Commitments and Contingencies**

The Company has certain obligations to make future payments under various contracts, some of these are recorded on its balance sheet and some are not. Obligations that are recorded on the Company's balance sheet include the Company's capital lease obligations. Obligations that are not recorded on the Company's balance sheet include contractual relationships for operating leases, purchase obligations, and certain guarantees. The Company's commitments relating to capital leases and off-balance sheet agreements are included in the tables below. These amounts exclude \$202.9 million of liabilities related to uncertain tax benefits because the Company is unable to reasonably estimate the ultimate amount or time of settlement. See Note 7 of the Consolidated Financial Statements for further discussion.

#### *Capital Leases*

Capital leases reflect building and office equipment leases. The Company's contractual cash obligations relating to its existing capital leases, including interest, as of June 28, 2015 were as follows:

	<b>Capital Leases</b>
	<b>(in thousands)</b>
Payments due by period:	
2016	\$1,630
2017	7,223
2018	77
2019	77
2020	70
Total	<u>9,077</u>
Interest on capital leases	131
Current portion of capital leases	<u>1,524</u>
Long-term portion of capital leases	<u>\$7,422</u>

#### *Operating Leases and Related Guarantees*

The Company leases the majority of its administrative, R&D and manufacturing facilities, regional sales/service offices and certain equipment under non-cancelable operating leases. Certain of the Company's facility leases for buildings located at its Fremont, California headquarters and certain other facility leases provide the Company with options to extend the leases for additional periods or to purchase the facilities. Certain of the Company's facility leases provide for periodic rent increases based on the general rate of inflation. The Company's rental expense for facilities occupied during fiscal years 2015, 2014, and 2013 was approximately \$15 million, \$12 million, and \$14 million, respectively.

The Company has operating leases regarding certain improved properties in Fremont and Livermore, California (the "Operating Leases"). The Company is required to maintain cash collateral in an aggregate of approximately \$132.5 million in separate interest-bearing accounts, and marketable securities collateral in an aggregate of approximately \$32.9 million, as security for the Company's obligations. These amounts are recorded with other restricted cash and investments in the Company's Consolidated Balance Sheet as of June 28, 2015.

During the term of the Operating Leases and when the terms of the Operating Leases expire, the property subject to those Operating Leases 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 \$219.0 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 \$249.9 million, in the aggregate.

The Company's contractual cash obligations with respect to operating leases, excluding the residual value guarantees discussed above, as of June 28, 2015 were as follows:

	<b>Operating Leases</b>
	<b>(in thousands)</b>
Payments due by period:	
2016	\$17,593
2017	14,004
2018	6,544
2019	5,223
2020	4,847
thereafter	10,811
Less: Sublease Income	(478)
<b>Total</b>	<b><u>\$58,544</u></b>

#### *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 insurance contracts that are intended to limit its exposure to such indemnifications. As of June 28, 2015, the Company had not recorded any liability on its Consolidated Financial Statements in connection with these indemnifications, as it does not believe 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 that it is probable that any material amounts will be paid under these guarantees.

The Company provides guarantees and standby letters of credit to certain parties as required for certain transactions initiated during the ordinary course of business. As of June 28, 2015, the maximum potential amount of future payments that the Company could be required to make under these arrangements and letters of credit was \$15.5 million. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid.

#### *Purchase Obligations*

Purchase obligations consist of non-cancelable significant contractual obligations either on an annual basis or over multi-year periods. The contractual cash obligations and commitments table presented below contains the Company's minimum obligations at June 28, 2015 under these arrangements and others. For obligations with cancellation provisions, the amounts included in the following table were limited to the non-cancelable portion of the agreement terms or the minimum cancellation fee. Actual expenditures will vary based on the volume of transactions and length of contractual service provided.

The Company's commitments related to these agreements as of June 28, 2015 were as follows:

	<b>Purchase Obligations</b>
	<b>(in thousands)</b>
<b>Payments due by period:</b>	
2016	\$189,955
2017	980
2018	980
2019	970
2020	970
<b>Total</b>	<b>\$193,855</b>

#### *Warranties*

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

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

	<b>Year Ended</b>	
	<b>June 28, 2015</b>	<b>June 29, 2014</b>
	<b>(in thousands)</b>	
Balance at beginning of period	\$ 69,385	\$ 58,078
Warranties issued during the period	119,119	87,922
Settlements made during the period	(100,196)	(80,280)
Changes in liability for pre-existing warranties	4,901	3,665
Balance at end of period	<u>\$ 93,209</u>	<u>\$ 69,385</u>

#### *Legal Proceedings*

While the Company is not currently a party to any legal proceedings that it believes material, 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.

#### **Note 17: Stock Repurchase Program**

On April 29, 2014, the Board of Directors authorized the repurchase of up to \$850 million of Common Stock. 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 are funded using the Company's on-shore cash and on-shore cash generation. This repurchase program has no termination date and may be suspended or discontinued at any time.

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

Period	Total Number of Shares Repurchased	Total Cost of Repurchase	Average Price Paid Per Share*	Amount Available Under Repurchase Program
(in thousands, except per share data)				
Available balance as of June 29, 2014				\$830,895
Quarter ended September 28, 2014	3,818	\$296,721	\$70.01	\$534,174
Quarter ended December 28, 2014	869	\$ 45,694	\$77.31	\$488,480
Quarter ended March 29, 2015	1,434	\$112,477	\$78.45	\$376,003
Quarter ended June 28, 2015	754	\$ 59,416	\$78.80	\$316,587

\* Average price paid per share excludes accelerated share repurchases for which cost was incurred during the September 2014 quarter, but that did not settle until the December 2014 quarter. See the section below for discussion regarding average price associated with the transaction.

In addition to shares repurchased under the Board-authorized repurchase program shown above, the Company acquired 761,883 shares at a total cost of \$58.8 million, during the twelve months ended June 28, 2015, which the Company withheld through net share settlements to cover minimum tax withholding obligations upon the vesting of restricted stock unit awards granted under the Company's equity compensation plans. The shares retained by the Company through these net share settlements are not a part of the Board-authorized repurchase program but instead are authorized under the Company's equity compensation plans.

As part of its share repurchase program, the Company may from time-to-time enter into structured share repurchase arrangements with financial institutions using general corporate funds.

During the three months ended September 28, 2014, the Company entered into a collared accelerated share repurchase ("ASR") transaction under a master repurchase arrangement. Under the ASR, the Company made an up-front cash payment of \$250 million, in exchange for an initial delivery of approximately 3.2 million shares of its Common Stock.

The number of shares to ultimately be repurchased by the Company was based generally on the volume-weighted average price ("VWAP") of the Common Stock during the term of the ASR minus a pre-determined discount set at inception of the ASR, subject to collar provisions that provided a minimum and maximum number of shares that the Company could repurchase under the agreements. The minimum and maximum thresholds for the transaction were established based on the average of the VWAP prices for the Common Stock during an initial hedge period. The ASR was scheduled to end at any time on or after October 8, 2014 and on or before December 8, 2014.

The counterparty designated October 9, 2014 as the termination date, at which time the Company settled the ASR. Approximately 0.3 million shares were received at final settlement, which represented a weighted-average share price of approximately \$72.90 for the transaction period.

## Note 18: Comprehensive Income (Loss)

The components of accumulated other comprehensive loss, net of tax at the end of the period, as well as the activity during the period, were as follows:

	Accumulated foreign currency translation adjustment	Accumulated unrealized holding gain (loss) on cash flow hedges	Accumulated unrealized holding gain (loss) on available-for-sale investments	Accumulated unrealized components of defined benefit plans	Total
(in thousands)					
Balance as of June 29, 2014	\$(12,986)	\$ (66)	\$ 1,557	\$(17,160)	\$(28,655)
Other comprehensive income (loss) before reclassifications	(18,438)	1,595	(5,389)	1,109	(21,123)
(Gains) losses reclassified from accumulated other comprehensive income (loss) to net income	(3,701)	(4,388)(1)	71 <sup>(2)</sup>	—	(8,018)
Net current-period other comprehensive income (loss)	\$(22,139)	\$(2,793)	\$(5,318)	\$ 1,109	\$(29,141)
Balance as of June 28, 2015	\$(35,125)	\$(2,859)	\$(3,761)	\$(16,051)	\$(57,796)

- (1) Amount of after tax gain reclassified from accumulated other comprehensive income into net income located in revenue: \$10,136 gain, cost of goods sold: \$3,704 loss, selling, general and administrative expenses: \$1,974 loss, and other income and expense: \$70 Loss
- (2) Amount of after tax gain reclassified from accumulated other comprehensive income into net income located in other expense, net

Tax related to the components of other comprehensive income during the period were as follows:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
(in thousands)			
Tax benefit (expense) on change in unrealized gains/losses on cash flow hedges:			
Tax benefit (expense) on unrealized gains/losses arising during the period	\$1,885	\$(1,065)	\$(1,312)
Tax (benefit) expense on gains/losses reclassified to earnings	(92)	1,615	818
	<u>1,793</u>	<u>550</u>	<u>(494)</u>
Tax benefit (expense) on change in unrealized gains/losses on available-for-sale investments:			
Tax benefit (expense) on unrealized gains/losses arising during the period	1,796	(735)	1,428
Tax (benefit) expense on gains/losses reclassified to earnings	31	493	(2,026)
	<u>1,827</u>	<u>(242)</u>	<u>(598)</u>
Tax benefit (expense) on change in unrealized components of defined benefit plans	(871)	1,895	586
Tax benefit (expense) on other comprehensive income(loss)	<u>\$2,749</u>	<u>\$ 2,203</u>	<u>\$ (506)</u>

## Note 19: Segment, Geographic Information and Major Customers

The Company operates in one reportable business segment: manufacturing and servicing of wafer processing semiconductor manufacturing equipment. The Company's material operating segments qualify for aggregation due to their customer base and similarities in economic characteristics, nature of products and services, and processes for procurement, manufacturing and distribution.

The Company operates in seven geographic regions: United States, Europe, Japan, Korea, Taiwan, China and Southeast Asia. For geographical reporting, revenue is attributed to the geographic location in which the customers' facilities are located while long-lived assets are attributed to the geographic locations in which the assets are located.

Revenues and long-lived assets by geographic region were as follows:

	Year Ended		
	June 28, 2015	June 29, 2014	June 30, 2013
	(in thousands)		
Revenue:			
Korea	\$1,406,617	\$1,127,406	\$ 603,821
Taiwan	1,084,239	1,049,214	1,026,548
United States	890,891	622,022	734,324
China	661,094	623,408	319,282
Japan	623,575	634,131	368,095
Europe	314,546	303,730	292,432
Southeast Asia	278,350	247,398	254,414
Total revenue	<u>\$5,259,312</u>	<u>\$4,607,309</u>	<u>\$3,598,916</u>
	(in thousands)		
Long-lived assets:			
United States	\$505,814	\$429,548	\$484,273
Europe	86,779	89,221	109,934
Korea	18,230	18,776	991
Taiwan	8,908	4,259	2,953
China	960	846	2,291
Japan	378	454	680
Southeast Asia	349	392	2,788
	<u>\$621,418</u>	<u>\$543,496</u>	<u>\$603,910</u>

In fiscal year 2015, three customers accounted for approximately 28%, 12%, and 11% of total revenues. In fiscal year 2014, three customers accounted for approximately 23%, 15%, and 14% of total revenues. In fiscal year 2013, three customers accounted for approximately 19%, 15%, and 11% of total revenues. No other customers accounted for more than 10% of total revenues.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Lam Research Corporation

We have audited the accompanying consolidated balance sheets of Lam Research Corporation as of June 28, 2015 and June 29, 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended June 28, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lam Research Corporation at June 28, 2015 and June 29, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 28, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lam Research Corporation's internal control over financial reporting as of June 28, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 13, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California  
August 13, 2015

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Lam Research Corporation

We have audited Lam Research Corporation's internal control over financial reporting as of June 28, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Lam Research Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lam Research Corporation maintained, in all material respects, effective internal control over financial reporting as of June 28, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 Consolidated Financial Statements of Lam Research Corporation and our report dated August 13, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California  
August 13, 2015

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

None.

**Item 9A. Controls and Procedures**

*Design of Disclosure Controls and Procedures and Internal Control over Financial Reporting*

We maintain disclosure controls and procedures and internal control over financial reporting that are designed to comply with Rule 13a-15 of the Exchange Act. In designing and evaluating the controls and procedures associated with each, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and that 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.

*Disclosure Controls and Procedures*

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of June 28, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer each concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

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

*Changes in Internal Control Over Financial Reporting*

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

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

Management is responsible for establishing and maintaining adequate "internal control over financial reporting", as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Controls — Integrated Framework used by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on that evaluation, management has concluded that the Company's internal control over financial reporting was effective as of June 28, 2015 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Ernst & Young LLP, an independent registered public accounting firm, has audited the Company's internal control over financial reporting, as stated in their report, which is included in Part II, Item 8 of this 2015 Form 10-K.

*Effectiveness of Controls*

While we believe the present design of our disclosure controls and procedures and internal control over financial reporting is effective at the reasonable assurance level, future events affecting our business may cause us to modify our disclosure controls and procedures or internal controls over financial reporting.

**Item 9B. Other Information**

None.

## PART III

We have omitted from this 2015 Form 10-K certain information required by Part III because we, as the Registrant, will file a definitive proxy statement with the SEC within 120 days after the end of our fiscal year, pursuant to Regulation 14A, as promulgated by the SEC, for our Annual Meeting of Stockholders expected to be held on or about November 4, 2015 (the "Proxy Statement"), and certain information included in the Proxy Statement is incorporated into this report by reference. (However, the Reports of the Audit Committee and Compensation Committee in the Proxy Statement are expressly not incorporated by reference into this report.)

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

For information regarding our executive officers, see Part I, Item 1 of this 2015 Form 10-K under the caption "Executive Officers of the Company," which information is incorporated into Part III by reference.

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

The information concerning our audit committee and audit committee financial experts required by this Item is incorporated by reference to our Proxy Statement under the heading "Governance Matters — Corporate Governance — Board Committees — Audit Committee."

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

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

### **Item 11. *Executive Compensation***

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

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

The information required by this Item is incorporated by reference to our Proxy Statement under the headings "Voting Proposals — Proposal No. 1: Election of Directors," "Compensation Matters — Executive Compensation and Other Information Compensation Committee Interlocks and Insider Participation," "Compensation Matters — Executive Compensation and Other Information — Compensation Committee Report," "Share Ownership — Security Ownership of Certain Beneficial Owners and Management" and "Compensation Matters — Securities Authorized for Issuance Under Equity Compensation Plans."

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

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

### **Item 14. *Principal Accounting Fees and Services***

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

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

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

1. Index to Financial Statements

	<u>Page</u>
Consolidated Statements of Operations — Years Ended June 28, 2015, June 29, 2014, and June 30, 2013	49
Consolidated Statements of Comprehensive Income — Years Ended June 28, 2015, June 29, 2014, and June 30, 2013	50
Consolidated Balance Sheets — June 28, 2015 and June 29, 2014	51
Consolidated Statements of Cash Flows — Years Ended June 28, 2015, June 29, 2014, and June 30, 2013	52
Consolidated Statements of Stockholders' Equity — Years Ended June 28, 2015, June 29, 2014, and June 30, 2013	54
Notes to Consolidated Financial Statements	55
Reports of Independent Registered Public Accounting Firm	89
2. Index to Financial Statement Schedules	
Schedule II — Valuation and Qualifying Accounts	96

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

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

(b) The list of Exhibits follows page 96 of this 2015 Annual Report on Form 10-K and is incorporated herein by this reference.

## SIGNATURES

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

LAM RESEARCH CORPORATION

By /s/ Martin B. Anstice

Martin B. Anstice  
President and Chief Executive Officer

Dated: August 13, 2015

## POWER OF ATTORNEY AND SIGNATURES

By signing this Annual Report on Form 10-K below, I hereby appoint each of Martin B. Anstice and Douglas R. Bettinger, jointly and severally, as my attorney-in-fact to sign all amendments to this Form 10-K on my behalf, and to file this Form 10-K (including all exhibits and other related documents) with the Securities and Exchange Commission. I authorize each of my attorneys-in-fact to (1) appoint a substitute attorney-in-fact for himself and (2) perform any actions that he believes are necessary or appropriate to carry out the intention and purpose of this Power of Attorney. I ratify and confirm all lawful actions taken directly or indirectly by my attorneys-in-fact and by any properly appointed substitute attorneys-in-fact.

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

Signatures	Title	Date
<b>Principal Executive Officer</b>		
<u>/s/ Martin B. Anstice</u> Martin B. Anstice	President, Chief Executive Officer and Director	August 13, 2015
<b>Principal Financial Officer and Principal Accounting Officer</b>		
<u>/s/ Douglas R. Bettinger</u> Douglas R. Bettinger	Executive Vice President, Chief Financial Officer, and Chief Accounting Officer	August 13, 2015
<b>Other Directors</b>		
<u>/s/ Stephen G. Newberry</u> Stephen G. Newberry	Chairman	August 13, 2015
<u>/s/ Eric K. Brandt</u> Eric K. Brandt	Director	August 13, 2015
<u>/s/ Michael R. Cannon</u> Michael R. Cannon	Director	August 13, 2015
<u>/s/ Youssef A. El-Mansy</u> Youssef A. El-Mansy	Director	August 13, 2015
<u>/s/ Christine Heckart</u> Christine Heckart	Director	August 13, 2015
<u>/s/ Grant M. Inman</u> Grant M. Inman	Director	August 13, 2015
<u>/s/ Catherine P. Lego</u> Catherine P. Lego	Director	August 13, 2015
<u>/s/ Krishna Saraswat</u> Krishna Saraswat	Director	August 13, 2015
<u>/s/ William R. Spivey</u> William R. Spivey	Director	August 13, 2015
<u>/s/ Abhi Talwalkar</u> Abhi Talwalkar	Director	August 13, 2015

**LAM RESEARCH CORPORATION**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
(in thousands)

Description	Additions		Write-offs, Net of Recoveries (1)	Balance at End of Period
	Balance at Beginning of Period	Charged to Costs and Expenses		
YEAR ENDED JUNE 28, 2015				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$4,962	\$ 8	\$ (80)	\$4,890
YEAR ENDED JUNE 29, 2014				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$5,448	\$ 14	\$(500)	\$4,962
YEAR ENDED JUNE 30, 2013				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$5,248	\$200	\$ —	\$5,448

**LAM RESEARCH CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE FISCAL YEAR ENDED JUNE 28, 2015**

**EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>
3.1(2)	Certificate of Incorporation of the Registrant, dated September 7, 1989; as amended by the Agreement and Plan of Merger, Dated February 28, 1990; the Certificate of Amendment dated October 28, 1993; the Certificate of Ownership and Merger dated December 15, 1994; the Certificate of Ownership and Merger dated June 25, 1999 and the Certificate of Amendment effective as of March 7, 2000; and the Certificate of Amendment effective as of November 5, 2009.
3.2(15)	Bylaws of the Registrant, as amended and restated, dated November 7, 2014.
3.3(2)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated January 30, 1997.
4.1(7)	Indenture (including Form of Notes), dated as of May 11, 2011, by and between Lam Research Corporation, and The Bank of New York Mellon Trust Company, N.A, as trustee, with respect to the 2016 Notes
4.2(7)	Indenture (including Form of Notes), dated as of May 11, 2011, by and between Lam Research Corporation, and The Bank of New York Mellon Trust Company, N.A, as trustee, with respect to the 2018 Notes
4.14(4)*	Lam Research Corporation 2004 Executive Incentive Plan, as amended.
4.15(27)*	Lam Research Corporation 2007 Stock Incentive Plan, as amended.
4.16(8)*	Lam Research Corporation Elective Deferred Compensation Plan.
4.17(8)*	Lam Research Corporation Elective Deferred Compensation Plan II.
4.18(9)	Indenture between Novellus Systems, Inc. as Issuer and The Bank of New York Mellon Trust Company, N.A. as Trustee, dated as of May 10, 2011, including the form of 2.625% Senior Convertible Notes due 2041.
4.19(6)	Supplemental Indenture among the Registrant, as Guarantor, Novellus Systems, Inc. as Issuer and The Bank of New York Mellon Trust Company, N.A. as Trustee, dated as of June 4, 2012.
4.20(16)*	Lam Research Corporation 1999 Employee Stock Purchase Plan, as amended.
4.21(23)	Indenture (including Form of Notes), dated as of February 13, 2015, between Registrant and The Bank of New York Mellon Trust Company, N.A.
4.22(25)	First Supplemental Indenture, dated as of March 12, 2015, by and between Lam Research Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee
10.3(1)*	Form of Indemnification Agreement.
10.107(3)	Form of Restricted Stock Unit Award Agreement—Outside Directors (U.S. Agreement) — Lam Research Corporation 2007 Stock Incentive Plan.
10.108(3)	Form of Restricted Stock Unit Award Agreement—Outside Directors (non-U.S. Agreement) — Lam Research Corporation 2007 Stock Incentive Plan.
10.148(5)*	Form of Indemnification Agreement.

<b>Exhibit</b>	<b>Description</b>
10.151(6)*	Form of Indemnification Agreement.
10.162(10)*	Form of Novellus Directors and Officers Indemnification Agreement.
10.168(11)	Lease Guaranty between Novellus and Phoenix Industrial Investment Partners, L.P. dated January 21, 2003.
10.169(12)	Binding Memorandum of Understanding between Novellus, and Applied Materials, Inc., effective as of September 3, 2004. Portions of this exhibit have been omitted pursuant to a request for confidential treatment.
10.170(13)*	Novellus Amended Executive Voluntary Deferred Compensation Plan, as amended.
10.171(14)*	Novellus Accelerated Stock Vesting Retirement Plan Summary.
10.172(17)*	Novellus Systems, Inc. 2011 Stock Incentive Plan, as amended July 18, 2012.
10.181(18)*	Form of Restricted Stock Unit Award Agreement (U.S. Participants) — Lam Research Corporation 2007 Stock Incentive Plan
10.182(18)*	Form of Restricted Stock Unit Award Agreement (International Participants) — Lam Research Corporation 2007 Stock Incentive Plan
10.183(18)*	Form of Nonstatutory Stock Option Award Agreement (U.S. Participants) — Lam Research Corporation 2007 Stock Incentive Plan
10.184(18)*	Form of Nonstatutory Stock Option Award Agreement (International Participants) — Lam Research Corporation 2007 Stock Incentive Plan
10.187(18)*	Form of Restricted Stock Unit Award Agreement (U.S. Participants) — Lam Research Corporation (Novellus Systems, Inc.) 2011 Stock Incentive Plan (As Amended)
10.188(18)*	Form of Restricted Stock Unit Award Agreement (International Participants) — Lam Research Corporation (Novellus Systems, Inc.) 2011 Stock Incentive Plan (As Amended)
10.189(18)*	Form of Nonstatutory Stock Option Award Agreement (U.S. Participants) — Lam Research Corporation (Novellus Systems, Inc.) 2011 Stock Incentive Plan (As Amended)
10.191(18)*	Form of Nonstatutory Stock Option Award Agreement (International Participants) — Lam Research Corporation (Novellus Systems, Inc.) 2011 Stock Incentive Plan (As Amended)
10.194(18)	Participation Agreement between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.195(18)	Amended and Restated Lease Agreement (1 Portola Avenue Building) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.196(18)	Pledge Agreement (1 Portola Avenue Building) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.197(18)	Amended and Restated Lease Agreement (101 Portola Avenue Building) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.198(18)	Pledge Agreement (101 Portola Avenue Building) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.199(18)	Amended and Restated Lease Agreement (Fremont Building #1) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.200(18)	Pledge Agreement (Fremont Building #1) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013

Exhibit	Description
10.201(18)	Amended and Restated Lease Agreement (Fremont Building #3) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.202(18)	Pledge Agreement (Fremont Building #3) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.203(18)	Amended and Restated Lease Agreement (Fremont Building #3E) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.204(18)	Pledge Agreement (Fremont Building #3E) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.205(18)	Amended and Restated Lease Agreement (Fremont Building #4) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.206(18)	Pledge Agreement (Fremont Building #4) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.207(18)	Construction Agency Agreement (Fremont Building #3E) between Lam Research Corporation and BTMU Capital Leasing & Finance, Inc., dated December 31, 2013
10.211(19)*	Form of Market-Based Performance Restricted Stock Unit Award Agreement (U.S. Participants) — Lam Research Corporation 2007 Stock Incentive Plan
10.212(19)*	Form of Market-Based Performance Restricted Stock Unit Award Agreement (International Participants)—Lam Research Corporation 2007 Stock Incentive Plan
10.213(19)*	Form of Market-Based Performance Restricted Stock Unit Award Agreement (U.S. Participants) — Lam Research Corporation (Novellus Systems, Inc.) 2011 Stock Incentive Plan (As Amended)
10.214(19)*	Form of Market-Based Performance Restricted Stock Unit Award Agreement (International Participants) — Lam Research Corporation (Novellus Systems, Inc.) 2011 Stock Incentive Plan (As Amended)
10.221(20)	Credit Agreement dated March 12, 2014 among Lam Research Corporation and the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, BNP Paribas, Barclays Bank PLC, Citibank, N.A. and Deutsche Bank Securities Inc., as co-documentation agents, and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint bookrunners and joint lead arrangers
10.231(21)*	Employment Agreement with Martin B. Anstice, dated January 13, 2015
10.232(21)*	Employment Agreement with Timothy M. Archer, dated January 13, 2015
10.233(21)*	Employment Agreement with Douglas R. Bettinger, dated January 13, 2015
10.234(21)*	Employment Agreement with Richard A. Gottscho, dated January 13, 2015
10.235(21)*	Form of Change in Control Agreement.
10.236(22)	Chairman's Agreement with Stephen G. Newberry, dated January 13, 2015
10.237(22)	Form of Confidentiality Agreement
10.242(24)	First Amendment to Credit Agreement dated March 5, 2015 among Lam Research Corporation, the lenders party thereto and JPMorgan Chase Bank N.A., as administrative agent
20.1(26)	Notices of Adjustment of Conversion Rate pursuant to the Indentures dated May 11, 2011, by and between Lam Research Corporation and The Bank of New York Mellon Trust Company, N.A. as Trustee with respect to the 0.500% Senior Convertible Notes Due 2016 and the 1.250% Senior

Exhibit	Description
	Convertible Notes Due 2018, and Notice of Adjustment of Conversion Rate pursuant to the indenture dated May 10, 2011, by and between Novellus Systems Incorporated and The Bank of New York Mellon Trust company, N.A. as Trustee with respect to the 2.625% Senior Convertible Notes Due 2041.
21	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (See Signature page)
31.1	Rule 13a — 14(a) / 15d — 14(a) Certification (Principal Executive Officer)
31.2	Rule 13a — 14(a) / 15d — 14(a) Certification (Principal Financial Officer)
32.1	Section 1350 Certification — (Principal Executive Officer)
32.2	Section 1350 Certification — (Principal Financial Officer)
101	XBRL Instance Document
101	XBRL Taxonomy Extension Schema Document
101	XBRL Taxonomy Extension Calculation Linkbase Document
101	XBRL Taxonomy Extension Definition Linkbase Document
101	XBRL Taxonomy Extension Label Linkbase Document
101	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 1988 (SEC File No. 000-12933).
- (2) Incorporated by reference to Registrant's Amendment No. 2 to its Annual Report on Form 10K/A filed on May 2, 2001, and Registrant's Current Report on Form 8-K filed on November 10, 2009 (SEC File No. 000-12933).
- (3) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed on April 30, 2007 (SEC File No. 000-12933).
- (4) Incorporated by reference to Registrant's Annual Report on Form 10-K filed on August 23, 2010 (SEC File No. 000-12933).
- (5) Incorporated by reference to Registrant's Current Report on Form 8-K filed on November 13, 2008 (SEC File No. 000-12933).
- (6) Incorporated by reference to Registrant's Current Report on Form 8-K filed on June 4, 2012 (SEC File No. 000-12933).
- (7) Incorporated by reference to Registrant's Current Report on Form 8-K filed on May 11, 2011 (SEC File No. 000-12933).
- (8) Incorporated by reference to Registrant's Annual Report on Form 10-K filed on August 19, 2011 (SEC File No. 000-12933)
- (9) Incorporated by reference to Novellus' Current Report on Form 8-K filed on May 10, 2011 (SEC File No. 000-17157).
- (10) Incorporated by reference to Novellus' Current Report on Form 10-Q filed on August 13, 2002 (SEC File No. 000-17157).
- (11) Incorporated by reference to Novellus' Annual Report on Form 10-K filed on March 5, 2003 (SEC File No. 000-17157).
- (12) Incorporated by reference to Novellus' Current Report on Form 8-K filed on September 24, 2004 (SEC File No. 000-17157).

- (13) Incorporated by reference to Novellus' Report on Form 10-Q filed on November 5, 2008 (SEC File No. 000-17157).
  - (14) Incorporated by reference to Novellus' Quarterly Report on Form 10-Q filed on November 2, 2010 (SEC File No. 000-17157).
  - (15) Incorporated by reference to Registrant's Current Report on Form 8-K filed on November 12, 2014 (SEC File No. 000-12933).
  - (16) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed on January 31, 2013 (SEC File No. 000-12933).
  - (17) Incorporated by reference to Registrant's Annual Report on Form 10-K filed on August 22, 2012 (SEC File No. 000-12933).
  - (18) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed on February 6, 2014 (SEC File No. 000-12933).
  - (19) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 18, 2014 (SEC File No. 000-12933).
  - (20) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on March 13, 2014 (SEC File No. 000-12933).
  - (21) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 16, 2015 (SEC File No. 000-12933).
  - (22) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed on February 3, 2015 (SEC File No. 000-12933).
  - (23) Incorporated by reference to the Registrant's Registration Statement on Form S-3 filed on February 13, 2015 (SEC File No. 333-202110).
  - (24) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on March 11, 2015 (SEC File No. 000-12933).
  - (25) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on March 12, 2015 (SEC File No. 000-12933).
  - (26) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on June 16, 2015 (SEC File No. 000-12933).
  - (27) Incorporated by reference to Registrant's Annual Report on Form 10-K filed on August 27, 2013 (SEC File No. 000-12933)
- \* Indicates management contract or compensatory plan or arrangement in which executive officers of the Company are eligible to participate.

## SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARY (as of August 4, 2015)	STATE OR OTHER JURISDICTION OF OPERATION
Lam Research AG	Austria
Lam Research Management GmbH	Austria
IPEC FSC Ltd	Barbados
IPEC International Sales FSC Ltd	Barbados
Lam Research Belgium BVBA	Belgium
Novellus Systems, Inc.	California, United States
Novellus Systems International, LLC	California, United States
Lam Research International Holdings Ltd.	Cayman Islands
Lam Research (Shanghai) Co., Ltd.	China
Lam Research Service Co., Ltd.	China
Novellus Systems Semiconductor Equipment Shanghai Co. Ltd.	China
Novellus Systems International Trading (Shanghai) Co. Ltd.	China
Lam Research International Holding Company	Delaware, United States
Metryx, Inc.	Delaware, United States
Novellus International Holdco, LLC.	Delaware, United States
SpeedFam-IPEC International Services, LLC	Delaware, United States
Novellus Development Company, LLC	Delaware, United States
Silfex, Inc.	Delaware, United States
Lam Research SAS	France
Lam Research GmbH	Germany
Lam Research (H.K.) Limited	Hong Kong
Novellus Systems Service (Hong Kong) Limited	Hong Kong
Lam Research Illinois IAG, Inc	Illinois, United States
Lam Research (India) Private Ltd.	India
Lam Research (Ireland) Limited	Ireland
Novellus Systems Ireland Ltd.	Ireland
Lam Research (Israel) Ltd.	Israel
Lam Research Services Ltd.	Israel
GaSonics Israel Ltd.	Israel
Lam Research S.r.l.	Italy
Novellus Systems Italy SRL (in liquidation)	Italy
Lam Research Co., Ltd.	Japan
Lam Research Luxembourg S.à.r.l.	Luxembourg
Lam Research Malaysia Sdn. Bhd.	Malaysia

<b>SUBSIDIARY (as of August 4, 2015)</b>	<b>STATE OR OTHER JURISDICTION OF OPERATION</b>
LAM Research B.V.	Netherlands
Lam Research International B.V.	Netherlands
Lam Research IAG International HC B.V.	Netherlands
Novellus Systems International B.V.	Netherlands
Lam Research Korea Limited	Republic of Korea
Lam Research Korea LLC YH	Republic of Korea
Novellus Singapore Pte. Ltd., Korea Branch	Republic of Korea
Corus Manufacturing Ltd.	Republic of Korea
Lam Research Singapore Pte Ltd	Singapore
Novellus Systems International BV, Singapore Branch	Singapore
Novellus Singapore Holdings Pte. Ltd.	Singapore
Lam Research Holding GmbH	Switzerland
Lam Research International Sàrl	Switzerland
Novellus Systems (Schweiz) Holding GmbH	Switzerland
Voumard Machines Co SARL	Switzerland
Lam Research Co., Ltd.	Taiwan
Lam Research (H.K.) Limited, Taiwan Branch	Taiwan
Novellus Systems Service (Hong Kong) Limited, Taiwan Branch	Taiwan
Lam Research Ltd.	United Kingdom
Metryx, Ltd.	United Kingdom
Lam Research IAG (U.K.) Ltd	United Kingdom

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-4 No. 333-30545) of Lam Research Corporation and in the related Prospectus,
2. Registration Statement (Form S-4 No. 333-179267) of Lam Research Corporation and in the related Prospectus,
3. Registration Statement (Form S-8 No. 333-66833) pertaining to the 1999 Employee Stock Purchase Plan,
4. Registration Statement (Form S-8 No. 333-84638) pertaining to the Savings Plus Plan, Lam Research 401(k),
5. Registration Statement (Form S-8 No. 333-127936) pertaining to the 1999 Employee Stock Purchase Plan, as amended,
6. Registration Statement (Form S-8 No. 333-138545) pertaining to the 2007 Stock Incentive Plan, as amended,
7. Registration Statement (Form S-8 No. 333-156335) pertaining to the 1999 Employee Stock Purchase Plan, as amended,
8. Registration Statement (Form S-8 No. 333-181878) pertaining to the Novellus Systems, Inc. 2011 Stock Incentive Plan, Novellus Systems, Inc. Retirement Plan, and Lam Research Corporation 1999 Employee Stock Purchase Plan, as amended, and
9. Registration Statement (Form S-8 No. 333-185641) pertaining to the Savings Plus Plan, Lam Research 401(k), and
10. Registration Statement (Form S-3 No. 333-202110) of Lam Research Corporation and in the related Prospectus;

of our reports dated August 13, 2015, with respect to the Consolidated Financial Statements and schedule of Lam Research Corporation and the effectiveness of internal control over financial reporting of Lam Research Corporation included in this Annual Report (Form 10- K) of Lam Research Corporation for the year ended June 28, 2015.

/s/ ERNST & YOUNG LLP

San Jose, California  
August 13, 2015

**RULE 13a-14(a)/15d-14(a) CERTIFICATION (PRINCIPAL EXECUTIVE OFFICER)**

I, Martin B. Anstice, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lam Research Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2015

/s/ Martin B. Anstice

Martin B. Anstice

*President and Chief Executive Officer*

**RULE 13a-14(a)/15d-14(a) CERTIFICATION (PRINCIPAL FINANCIAL OFFICER)**

I, Douglas R. Bettinger, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lam Research Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2015

/s/ Douglas R. Bettinger

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Douglas R. Bettinger  
Executive Vice President, Chief Financial Officer  
and Chief Accounting Officer

**SECTION 1350 CERTIFICATION (PRINCIPAL EXECUTIVE OFFICER)**

In connection with the Annual Report of Lam Research Corporation (the "Company") on Form 10-K for the fiscal period ending June 28, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin B. Anstice, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 13, 2015

/s/ Martin B. Anstice

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Martin B. Anstice

*President and Chief Executive Officer*

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Lam Research Corporation specifically incorporates it by reference.

**SECTION 1350 CERTIFICATION (PRINCIPAL FINANCIAL OFFICER)**

In connection with the Annual Report of Lam Research Corporation (the "Company") on Form 10-K for the fiscal period ending June 28, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas R. Bettinger, Executive Vice President, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 13, 2015

/s/ Douglas R. Bettinger

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Douglas R. Bettinger

*Executive Vice President, Chief Financial Officer and  
Chief Accounting Officer*

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Lam Research Corporation specifically incorporates it by reference.

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## BOARD OF DIRECTORS

### **Stephen G. Newberry**

Chairman

### **Martin B. Anstice**

President and  
Chief Executive Officer

### **Eric K. Brandt**

Executive Vice President and  
Chief Financial Officer  
Broadcom Corporation

### **Michael R. Cannon**

General Partner  
MRC & LBC Partners, LLC  
Retired President of  
Global Operations  
Dell Inc.

### **Youssef A. El-Mansy, Ph.D.**

Retired Vice President,  
Director of Logic Technology  
Development  
Intel Corporation

### **Christine A. Heckart**

Chief Marketing Officer  
Brocade Communications Systems, Inc.

### **Grant M. Inman**

General Partner  
Inman Investment Management

### **Catherine P. Lego**

Member  
Lego Ventures, LLC

### **Krishna C. Saraswat, Ph.D.**

Rickey/Nielsen Professor,  
School of Engineering  
Stanford University

### **William R. Spivey, Ph.D.**

Retired President and  
Chief Executive Officer  
Luminent, Inc.

### **Abhijit Y. Talwalkar**

Former President and  
Chief Executive Officer  
LSI Corporation

As of September 3, 2015

## EXECUTIVE OFFICERS

### **Martin B. Anstice**

President and  
Chief Executive Officer

### **Timothy M. Archer**

Executive Vice President and  
Chief Operating Officer

### **Douglas R. Bettinger**

Executive Vice President and  
Chief Financial Officer

### **Richard A. Gottscho, Ph.D.**

Executive Vice President,  
Global Products

### **Sarah A. O'Dowd, Esq.**

Senior Vice President,  
Chief Legal Officer and  
Secretary



Lam Research Corporation  
4650 Cushing Parkway  
Fremont, California 94538

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