

and is considered one of the most critical and expensive steps of chip manufacturing. The process description, itself, such as 65 nm or 55 nm, is a characterization of the size of the transistor that can be imprinted using a process.

Total industry lithography tool shipments have grown about 7% annually from 456 units in 2003 to 590 units in 2007, driven by a 14% annual increase in chip unit production. However, in dollar terms, the compounded annual growth rate has been a far more robust 22% as industry wide sales have risen from \$3.2B in 2003 to \$7.1B in 2007. This is because chip manufacturing processes today require not only more lithography layers but also finer resolution than previous generation processes. As a result, lithography system ASPs have increased at a 14% CAGR from \$7M in 2003 to \$12M in 2007.

ASML supplies 18 of the top 20 chip manufacturers. Samsung and Hynix are its biggest customers. Other major customers include Intel, TSMC, AMD, IBM and Toshiba. The lithography tools industry has only three participants: ASML, Nikon and Canon. In 2007, the company had market shares of 44% and 65% in units shipped and value of systems shipped, respectively. Nikon and Canon held market shares (by value of tools shipped) of about 25% and 10%, respectively.

ASML has taken a substantial lead in supplying tools for the latest lithography technique, called immersion lithography. Immersion lithography is used in the most critical patterning layers by DRAM and NAND flash manufacturers for 55 nm, and for more advanced processes, and is expected to be used by manufacturers of logic chips, such as microprocessors, for 45 nm, and for more advanced processes. At the end of 2007, ASML had 80% market share in immersion lithography. ASML, which has 70 systems in commercial use, has three times as many installed systems as Nikon, while Canon has yet to have an immersion system in commercial use. This strong competitive position in immersion lithography has helped drive significant market share gains in the last couple of years in Japan, where the company had little presence a few years ago.

ASML's success in immersion lithography has been a strong driver of its market share growth. Immersion lithography systems sell for \$40M+ each, compared to the older generation systems that sell for less than \$30M. Thus, while ASML's unit share has increased from 37% in 2003 to about 44% at the end of 2007, its market share by value of tools shipped rose from 45% to 65% in the same period.

Despite its strong market position and EPS growth of more than 40% over the past four years, ASML's shares trade at less than 9X 2009 consensus. The shares are down a third from their peak of October 2007. This weak share performance stems both from general global economic uncertainty, and from

management's comments on the Q4 07 call that the booking outlook for the next few quarters was unclear.

We think these short-term concerns are obscuring some factors that should drive ASML earnings higher in the medium term. First, annual growth in IC unit volume has been about 10% since 2000 (ranging from 27% in 2000 to -21% in 2001) and the semiconductor trade association WSTS expects similar growth over the next few years. Some of chip categories that should exhibit faster growth are NAND flash (used in consumer electronics and computing), digital signal processing (or DSP) chips (used in mobile communications), and DRAM (computing). These are also the types of chips that benefit from the adoption of leading edge process technologies, such as immersion lithography.

Second, many of these chips, especially the memory chips, NAND flash and DRAM are price elastic commodities. As a result, manufacturers aim for market share growth since the fixed costs can be amortized over a greater number of units, even as ASPs decline. Moreover, the only way to mitigate price competition is to offer chips with capacity higher than those offered by the competition. Reducing chip size and thereby producing more chips per wafer can achieve both of these objectives. Leading edge lithography thus plays a major role in memory chip manufacturing.

Consequently, we think ASML, the leading supplier of cutting edge lithography tools, represents an attractive play on chip growth at a very reasonable valuation (which we detail below).

As a result of the anticipated growth in chips manufactured using the most advanced processes, we think that even if orders for ASML's equipment are down later this year relative to recent levels, this should be a temporary phenomenon. Moreover, the richer mix of shipments with a higher proportion of immersion systems should continue to push ASPs up. We have been very conservative with our shipment estimates. While most "street" analysts, including the bears, assume that unit shipments in 2008 will exceed 188, down from 260 in 2007, we assume that the company will be able to ship only 175 units in 2008. Our unit shipment estimate of 210 systems in 2009 is also below the average "street" estimate of 245 systems. However, our ASP estimates of €16.8M and €17.9M in 2008 and 2009, respectively, are about €0.8M and €1.3M higher than the "street" averages. We think the "street" is misjudging the extent of the mix shift toward immersion systems. Immersion systems represented 60% of backlog at the end of Q4 07, up from 26% at Q4 06 and 42% at Q2 07.

Because we project a richer shipment mix, our EPS projections of €1.11 and €1.91, respectively, in 2008 and 2009 exceed the corresponding consensus

estimates of €1.09 and €1.54. Note that we have been very conservative in our estimate of unit shipments in 2008. Therefore, we think any surprise to our 2008 estimate is likely to be on the upside, absent a deep global economic downturn.

We note that orders from foundry customers such as TSMC and UMC have been soft, despite high utilization at their factories. ASML thinks that economic uncertainty has played a role in the decision of the companies to not order lithography tools. ASML has an option agreement with a foundry customer, likely TSMC, since Q2 07 for the latter to receive about 12 mid-range tools within three months of ordering. While these are not immersion systems, if the orders materialize in 2008, it could represent €100M-€200M of revenue upside and €0.07-€0.14 of EPS upside.

ASML shares trade at 9X 2009 EPS consensus compared to 15X and 14X for AMAT and KLAC, respectively, which we think have competitive strengths similar to ASML. On a trailing twelve month price-to-sales basis, too, ASML trades at 1.7X versus 2.7X for AMAT and KLAC. We think this discount should narrow, as investors come to appreciate the company's competitive strength. Our initial price target is \$34, which represents 12X our 2009 EPS estimate.

Background:

Lithography is the process of imprinting electrical circuits on a semiconductor chip, and is one of the most critical and expensive steps in the wafer fabrication process. Leading edge semiconductor fabrication processes employ as many as 40 lithography steps. About five of these lithography steps define the transistor and are called critical layers. Another 10-15 steps define the connections between the transistor and lower metallic layers and do not require as much resolution as the critical layers. The remaining steps define the upper metallization interconnections and the bond pads (which connect the chip to the outside world) and require even less resolution.

The resolution of a lithography system is a function of the wavelength of light used in the tool and the numerical aperture (NA) of the lens. The critical layers in today's most advanced processes employ Argon Fluoride (ArF) lasers, which emit radiation of 193 nm. Less critical layers use Krypton Fluoride (KrF) lasers (248 nm) or i-line light (365 nm). The resolution is also inversely proportional to the NA of the lens used in the lithography system. The most critical layers today use lenses whose NA ranges from 0.85 to 1.35, versus 0.48 to 0.93 for less critical layers.

The most advanced lithography technology used in commercial production today is called immersion lithography. Here, the wafer is wetted with water (for

193 nm immersion technology), which effectively reduces the incident wavelength by a factor equal to water's refractive index. This leads to better resolution.

ASML has been in the forefront of immersion lithography development and shipped its first immersion tool in 2004. By the end of 2007, the company had shipped more than 70 systems for commercial production. This is more than three times as many as Nikon as shipped to date. The other major lithography system supplier has yet to ship an immersion system for commercial applications.

Immersion lithography systems sell for more than \$40M, compared to \$4M for i-line systems, \$14M for KrF systems and \$28M for dry ArF systems. Because of its substantial lead in immersion lithography, ASML improved its dollar share of the lithography industry from 45% in 2003 to 65% in 2007, even though its unit share growth was more modest (44% in 2007 versus 37% in 2003). Nikon's share at the end of 2007 was 25%, while Canon accounted for the remaining 10%, mostly in i-line and KrF systems.

ASML's success in immersion lithography has also enabled it to penetrate the Japanese market, where it had virtually no presence a few years ago. In 2006, ASML added Toshiba, Nikon's largest customer, to its list of new Japanese customers. Japanese revenues accounted for 10% of ASML's 2007 net system sales, a 100% increase over 2006, and Japanese orders accounted for 10% of the company's 2007 year end backlog.

ASML's revenues by geography for the past three years are shown in Table 1. Given that large memory manufacturers, led by Samsung and Hynix, have been the leading adopters of immersion technology and ASML immersion systems, Korea's significance to ASML's revenues does not come as a surprise. Samsung said on its Q4 07 call that it expects to strengthen its cost advantage in memory chips by introducing 56 nm DRAM production and 42 nm NAND flash production in 2008.

Table 1: ASML revenue proportion by geography

	2005	2006	2007
Korea	35%	30%	27%
Taiwan	18%	21%	21%
Rest of Asia	15%	13%	20%
Europe	9%	10%	9%
US	24%	26%	23%

Source: Company reports

ASML counts 18 of the top 20 worldwide spenders on semiconductor capital equipment as customers. Other leading customers include Intel, TSMC, AMD and Toshiba.

In addition to immersion lithography, ASML holds other competitive advantages over rivals. In 2000, the company introduced a dual stage product platform called TwinScan, which allowed simultaneous exposure of a wafer and measurement of the next wafer in line to be exposed. This has enabled ASML to introduce succeeding generations of lithography advancements on the same platform, an advantage that has been especially critical in getting customers to test its pre-production immersion set up. Nikon now offers a Tandem Stage immersion system, while Canon does not yet have anything similar. Another advantage of the TwinScan platform is productivity. ASML immersion systems have processed more than 2,100 wafers per day at many customer locations. While Nikon claims that its latest immersion tool can process 130 wafers per hour, nearly as many as ASML's latest immersion scanner, the TwinScan XT 1900Gi, the productivity of its newest immersion scanner NSR-S610C at customers appears to be about 25% lower than that of the TwinScan XT 1900Gi. Moreover, ASML's immersion lens has an NA of 1.35 versus Nikon's 1.3. Recall that a higher NA enables finer lines to be printed.

Discussion:

1. ASML shares are down 25% since the beginning of the year, and have lost more than a third of their value since October 2007. On the Q4 07 call, management was optimistic about the company's long-term prospects but cautious on the outlook for orders for the remainder of 2008. Following the call, many "street" analysts have cut estimates citing management caution, cutbacks in capex at second tier DRAM vendors such as Qimonda, potential DRAM price stabilization which would inhibit adoption of leading edge technologies by second tier DRAM manufacturers, NAND flash oversupply, and the uncertain global economic environment.

While these concerns may turn out to be valid in the next few quarters, we think they have also created, for investors with time horizons beyond 2008, the opportunity to acquire a technology leader with strong competitive and financial positions at an attractive valuation.

2. In Table 2, we show ASML's backlog details that support our notion that any order cutbacks are likely to be temporary. Note that 60% of the backlog at the end of Q4 07 was for immersion lithography tools ordered by memory chip manufacturers, mainly in Korea and Japan (Samsung, Hynix, and Toshiba). The ASPs of new units in the backlog has increased from €13.9M at 2006 end to €20.9M at 2007 end due to the richer mix resulting from a higher proportion of

immersion units in the backlog. Note also that 78% of the Q4 07 backlog is shippable in Q1 08 and Q2 08.

While management said that immersion revenues in 2008 should double from the 2007 level of €1B, it did not repeat its earlier guidance that overall revenues for the first three quarters of 2008 would exceed that of the corresponding period in 2007. While this failure to reaffirm disappointed some “street” analysts, we think that it is more important that a richer mix would offset any weakness in orders.

Table 2: ASML backlog trend and composition

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07
Backlog value (M €)	1,596	1,830	2,126	2,146	2,163	1,745	1,769	1,697
ArF immersion	29%	27%	19%	26%	30%	42%	61%	60%
ArF dry	43%	42%	50%	39%	40%	37%	29%	28%
KrF	25%	26%	22%	24%	22%	15%	6%	10%
I-Line	3%	5%	9%	11%	8%	6%	4%	2%
Backlog units	106	127	151	163	148	109	90	89
Backlog ASP (M €)	15.1	14.4	14.1	13.2	14.6	16.0	19.7	19.1
New units in backlog	94	114	143	153	146	103	84	79
ASP of new units in backlog (M €)	16.6	15.7	14.7	13.9	14.8	16.7	20.7	20.9
Immersion units in backlog	18	19	15	20	21	25	35	34
Backlog shippable in next 2 quarters	85%	88%	74%	67%	78%	84%	69%	78%
Korea	24%	34%	23%	22%	14%	11%	35%	33%
US	31%	20%	27%	29%	30%	31%	22%	21%
Taiwan	21%	14%	20%	17%	27%	26%	16%	9%
Europe	9%	9%	6%	9%	13%	17%	13%	11%
China	8%	7%	8%	8%	6%	n/a	n/a	12%
Japan	5%	9%	6%	6%	6%	10%	8%	10%
ROW	2%	7%	n/a	n/a	n/a	5%	6%	4%
Singapore	n/a	n/a	10%	9%	4%	n/a	n/a	n/a
Memory	49%	49%	58%	64%	54%	50%	67%	66%
IDM	29%	27%	22%	21%	31%	37%	22%	26%
Foundry	22%	24%	20%	15%	15%	13%	11%	8%

Source: Company reports

We also note that ASML plans to introduce a new cost efficient KrF tool, the TwinScan XT 1000, in mid-2008 which would enable more cost conscious manufacturers such as the second tier DRAM makers to achieve results that could previously be achieved only by using more expensive ArF tools. ASML estimates that customers could save 30% or more by using this tool, since the costs of KrF

lasers and photoresists are lower than they are for ArF technology. This could provide orders from a group of customers who may be unwilling to invest in leading edge technology in the current economic environment.

3. The introduction of leading edge memory technology in 2008 by Samsung and Hynix is likely to be followed by capacity expansion in 2009. Moreover, logic manufacturers such as Intel and AMD (through its collaboration with IBM) are likely to evaluate of immersion technology for their next generation logic processes. We think this could result in significant immersion system orders in 2009 for ASML.

Intel's 45 nm process, which started producing chips in 2007, does not employ immersion lithography. However, Intel is evaluating immersion technology for 32 nm, which it plans to introduce in 2009. Our sources tell us Intel is evaluating both ASML and Nikon tools. In recent years, Intel has been increasing the amount of its lithography purchases from ASML and we heard that its lithography budget is now split equally between Nikon and ASML. We think that ASML has a good shot at Intel's immersion orders, given the current superiority of its platform.

AMD is planning to incorporate immersion technology in its 45 nm process, which it plans to introduce later this year. AMD's recent process transitions have not been smooth but if the 45 nm introduction is successful, it could result in additional immersion tool orders for ASML.

4. Recent results.

On January 16, 2008, ASML reported revenues and earnings of €973M and €0.38 (adjusted for a tax credit) that beat "street" expectations. However, orders of €803M were below expectations and, as noted previously, management's cautious outlook for orders for the next few quarters disappointed the "street." Additionally, the company projected that it would ship 50 units versus "street" expectations of 55-60, albeit at an ASP of €16.3M, above the "street's" €14.5M-€15M expectation.

DSO at the end of 2007 was 59 days, up 2 days Y/Y. Inventory days at the end of 2007 were 172 days, up 56 days Y/Y. The increase in inventory was primarily in the "Work in Process" component and resulted mainly from the shift to a richer mix in the company's business. Recall that immersion revenues increased 70% Y/Y in 2007 and constituted 30% of net system sales in 2007 versus 18% in 2006.

Table 3 shows free cash flow per share over the last five years. The company plans to spend about €200M on capital expenditures in 2008, mostly to construct and upgrade production facilities in the Netherlands and Taiwan. ASML told us that capital expenditures should decline to about €150M in 2009.

Table 3: Cash flow data for ASML: 2003-2007

(Amounts in €000, except per share amounts)	2003	2004	2005	2006	2007
Cash flow from operations	532,659	257,147	713,511	477,507	670,295
Capital expenditures	48,567	74,979	72,660	70,619	179,152
PP&E sales	2,638	15,137	13,235	5,216	19,221
Free cash flow	486,730	197,305	654,086	412,104	510,364
FCF per share	1.01	0.41	1.20	0.82	1.05

Source: Company reports

In 2007, ASML bought back 72M shares (or about 15% of shares outstanding at the end of 2006) for €1.471B. On February 19, 2008, the company announced that it plans to start paying dividends, starting with a €0.25 payment in 2008.

ASML had net cash of €1.50, book value of €4.29 and tangible book of €3.92 at the end of 2007.

5. Financial assumptions.

a. Revenues.

i. Unit shipments.

We assume unit shipments of 175 and 210, respectively in 2008 and 2009. We assume unit shipments of 95, 80, 95 and 115 in H1 08, H2 08, H1 09, and H2 09, respectively. Our 2009 shipment estimate is higher Y/Y because we assume, as previously discussed, that Samsung, Hynix and Toshiba will start their capacity expansions in 2009. Additionally, we expect some orders from logic manufacturers in 2009 as well. The “street” estimates for unit shipments range from 188 to 236 in 2008 and from 211 to 294 in 2009.

ii. ASP

Since we envision a continued mix shift toward immersion systems, our ASP estimate for 2008 and 2009 are €16.8M and €17.9M, respectively. “Street” estimates range from €15.0M to €17.1M for 2008 and €14.2M to €18.4M for 2009.

iii. Net service and field option sales.

These revenues have averaged about 12.5% of net system sales in recent quarters. We assume a similar proportion in 2008 and 2009.

b. Gross margin.

We assume that gross margin in 2008 will be down 220 basis points to 38.8%. Our shipment assumption of 175 systems in 2008 is similar to ASML's shipment level of 196 systems in 2005. The gross margin that year was 38.5%. In 2009, we assume that gross margin will increase 140 basis points to 40.2%. This is still below ASML's reported gross margins of 40.6% and 41% in 2006 and 2007, respectively, when the company shipped 266 and 260 systems, respectively.

c. Operating expenses.

Management has indicated that it can reduce R&D expenses by 30% and SG&A expenses by 10%-12% within a quarter in the event of a downturn. Since we expect a weak sales environment in H2 08, we assume that R&D expenses will be reduced from the €130M level of Q4 07 to €110M per quarter in H2 08. In 2009, we project that R&D expense will recover to 2007 levels.

Similarly, we assume that SG&A expenses will be reduced from €57M in Q4 07 to €50M per quarter in H2 08. In 2009, we project that SG&A expense will recover to 2007 levels.

d. Other items.

We assume interest income of €21M in 2008 and €27M in 2009, based on our estimated earnings, and assumed cash consumption of €200M and €150M for capital expenditures in 2008 and 2009, respectively. ASML has said that it would use cash balances above €1.5B to repurchase shares. We assume no repurchases in 2008, but estimate that the company will repurchase about 20M shares in 2009. Our assumed tax rate for both years is 25%, in line with the "street."

6. Valuation and risks.

Based on the foregoing assumptions, we project total net sales of €3,305M and €4,231M in 2008 and 2009, respectively. The corresponding "street" estimates are €3,365M and €3,716M. Our EPS estimates are €1.11 in 2008 and €1.91 in 2009, versus €1.09 and €1.54 for the "street." As we said earlier, we do not think the "street" is giving enough credit to the richening mix of ASML's

shipments. Because we assume a richer mix than the “street,” our operating cost structure assumptions are lower. Our R&D and SG&A expense projections of 10.9% and 5.1%, respectively, in 2009 are each about a percentage point lower than the “street” estimates.

Our initial price target of \$34 is 12X our 2009 EPS estimate. We note that our assumed multiple is lower than the 15X and 14X multiples that AMAT and KLAC, semiconductor capital equipment companies that we consider similar to ASML in terms of competitive position, trade at based on 2009 consensus.

The primary risk to our thesis is a prolonged drought in lithography tool orders, which could result from a deep and sustained global economic downturn. If such conditions were to occur, we think ASML is well placed than most companies in its sector because of its competitive strengths and solid financial condition.

7. Financial projections.

a. Quarterly projections.

	Q1 08e	Q2 08e	Q3 08e	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
Net system sales	815.0	753.8	680.0	690.0	787.5	887.5	990.0	1,095.0
Net service sales	100.2	93.6	84.2	88.3	98.2	111.1	124.1	137.8
Total net sales	915.2	847.3	764.2	778.3	885.7	998.6	1,114.1	1,232.8
Cost of sales	549.1	516.9	473.8	482.5	540.3	599.1	662.9	727.3
Gross profit	366.1	330.5	290.4	295.7	345.4	399.4	451.2	505.4
R&D	127.0	115.0	110.0	110.0	110.0	115.0	115.0	120.0
Amort. of R&D	-	-	-	-	-	-	-	-
SG&A	58.0	55.0	50.0	50.0	50.0	52.5	55.0	60.0
Oper. income	181.1	160.5	130.4	135.7	185.4	231.9	281.2	325.4
Interest inc (exp)	4.5	5.0	5.5	6.0	6.3	6.5	6.8	7.0
Pretax income	185.6	165.5	135.9	141.7	191.7	238.4	288.0	332.4
Income taxes	(46.4)	(41.4)	(34.0)	(35.4)	(47.9)	(59.6)	(72.0)	(83.1)
Net income	139.2	124.1	101.9	106.3	143.8	178.8	216.0	249.3
Diluted shares	425.0	425.0	425.0	425.0	420.0	415.0	410.0	405.0
Diluted EPS	0.33	0.29	0.24	0.25	0.34	0.43	0.53	0.62

Y/Y change

	Q1 08e	Q2 08e	Q3 08e	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
Net system sales	-5%	-9%	-20%	-19%	-3%	18%	46%	59%
Net service sales	-1%	-10%	-8%	-26%	-2%	19%	47%	56%
Total net sales	-5%	-9%	-19%	-20%	-3%	18%	46%	58%
Cost of sales	-3%	-6%	-14%	-16%	-2%	16%	40%	51%
Gross profit	-7%	-14%	-25%	-25%	-6%	21%	55%	71%
R&D	9%	-4%	-8%	-15%	-13%	0%	5%	9%
SG&A	3%	-2%	-11%	-12%	-14%	-5%	10%	20%
Oper. Income	-8%	-23%	-38%	-35%	2%	45%	116%	140%
Interest inc (exp)	-56%	-39%	-42%	9%	39%	30%	23%	17%
Pretax income	-10%	-23%	-38%	-34%	3%	44%	112%	135%
Income taxes	-14%	-25%	-35%	-20%	3%	44%	112%	135%
Net income	-9%	-23%	-39%	-38%	3%	44%	112%	135%
Diluted shares	-15%	-15%	-12%	-4%	-1%	-2%	-4%	-5%
Diluted EPS	7%	-9%	-31%	-35%	5%	48%	120%	146%

As % of sales

	Q1 08e	Q2 08e	Q3 08e	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
Net system sales	89%	89%	89%	89%	89%	89%	89%	89%
Net service sales	11%	11%	11%	11%	11%	11%	11%	11%
Total net sales	100%	100%	100%	100%	100%	100%	100%	100%
Cost of sales	60%	61%	62%	62%	61%	60%	60%	59%
Gross profit	40%	39%	38%	38%	39%	40%	41%	41%
R&D	14%	14%	14%	14%	12%	12%	10%	10%
Amort. of R&D	0%	0%	0%	0%	0%	0%	0%	0%
SG&A	6%	6%	7%	6%	6%	5%	5%	5%
Oper. income	20%	19%	17%	17%	21%	23%	25%	26%
Interest inc (exp)	0%	1%	1%	1%	1%	1%	1%	1%
Pretax income	20%	20%	18%	18%	22%	24%	26%	27%
Income taxes	-5%	-5%	-4%	-5%	-5%	-6%	-6%	-7%
Net income	15%	15%	13%	14%	16%	18%	19%	20%

b. Annual projections.

	2005	2006	2007	2008e	2009e
Net system sales	2,227.7	3,229.0	3,391.7	2,938.8	3,760.0
Net service & field option sales	301.3	368.0	416.9	366.2	471.2
Total net sales	2,529.0	3,597.0	3,808.6	3,305.0	4,231.2
Cost of sales	1,554.9	2,135.0	2,248.3	2,022.3	2,529.7
Gross profit	974.1	1,462.0	1,560.3	1,282.7	1,701.5
R&D, net of credits	323.8	386.5	486.2	462.0	460.0
Amortization of in-process R&D	-	-	23.1	-	-
SG&A	201.2	204.8	225.6	213.0	217.5
Income from operations	449.1	870.7	825.4	607.7	1,024.0
Interest income (expense)	(14.1)	(0.9)	33.5	21.0	26.5
Income before taxes	435.0	869.8	858.9	628.7	1,050.5
Income taxes	(123.5)	(245.2)	(206.0)	(157.2)	(262.6)
Net income	311.5	624.6	652.9	471.5	787.9
Diluted shares	543.0	504.0	485.6	425.0	412.5
Diluted EPS	0.57	1.24	1.34	1.11	1.91
Y/Y change					
	2005	2006	2007	2008e	2009e
Net system sales	2%	45%	5%	-13%	28%
Net service & field option sales	4%	22%	13%	-12%	29%
Total net sales	3%	42%	6%	-13%	28%
Cost of sales	0%	37%	5%	-10%	25%
Gross profit	8%	50%	7%	-18%	33%
R&D, net of credits	-2%	19%	26%	-5%	0%
SG&A	0%	2%	10%	-6%	2%
Income from operations	19%	94%	-5%	-26%	69%
Interest income (expense)	n/a	n/a	n/a	-37%	26%
Income before taxes	20%	100%	-1%	-27%	67%
Income taxes	-3%	99%	-16%	-24%	67%
Net income	32%	101%	5%	-28%	67%
Diluted shares	12%	-7%	-4%	-12%	-3%
Diluted EPS	18%	116%	8%	-17%	72%

As % of sales

	2005	2006	2007	2008e	2009e
Net system sales	88%	90%	89%	89%	89%
Net service & field option sales	12%	10%	11%	11%	11%
Total net sales	100%	100%	100%	100%	100%
Cost of sales	61%	59%	59%	61%	60%
Gross profit	39%	41%	41%	39%	40%
R&D, net of credits	13%	11%	13%	14%	11%
Amortization of in-process R&D	0%	0%	1%	0%	0%
SG&A	8%	6%	6%	6%	5%
Income from operations	18%	24%	22%	18%	24%
Interest income (expense)	-1%	0%	1%	1%	1%
Income before taxes	17%	24%	23%	19%	25%
Income taxes	-5%	-7%	-5%	-5%	-6%
Net income	12%	17%	17%	14%	19%