FORM 10-Q

CYMER INC - CYMI

Filed: August 07, 2007 (period: June 30, 2007)

Quarterly report which provides a continuing view of a company's financial position

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2007

OR

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

For the Transition Period from to

Commission file number 0-21321

CYMER, INC.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**33-0175463** (I.R.S. Employer Identification No.)
17075 Thornmint Court, San Diego, CA (Address of principal executive offices)	**92127** (Zip Code)

(858) 385-7300
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report).

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer

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

The total number of shares of Common Stock, with $0.001 par value, outstanding on August 3, 2007 was 31,953,748.

CYMER, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2007

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ITEM 1. Financial Statements

CYMER, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share data)

	December 31, 2006	June 30, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 302,098	$ 330,608
Short-term investments	207,943	42,026
Accounts receivable - net	115,857	105,885
Accounts receivable - related party	834	1,194
Foreign currency forward exchange contracts	652	1,039
Inventories	104,296	121,284
Deferred income taxes	46,943	38,988
Income taxes receivable	—	6,525
Prepaid expenses and other assets	7,143	8,583
Total current assets	785,766	656,132
PROPERTY AND EQUIPMENT - NET	112,074	108,582
LONG-TERM INVESTMENTS	8,384	24,123
DEFERRED INCOME TAXES	12,766	12,779
GOODWILL	8,833	8,833
INTANGIBLE ASSETS - NET	15,880	14,478
OTHER ASSETS	5,391	5,415
TOTAL ASSETS	$ 949,094	$ 830,342
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 18,711	$ 14,901
Accounts payable - related party	4,858	1,442
Accrued warranty and installation	29,974	29,411
Accrued payroll and benefits	21,707	17,328
Accrued patents, royalties and other fees	4,262	3,661
Income taxes payable	13,293	—
Unearned income	2,544	2,912
Other current liabilities	3,715	4,356
Total current liabilities	99,064	74,011
CONVERTIBLE SUBORDINATED NOTES	140,722	140,722
INCOME TAXES PAYABLE	—	15,085
OTHER LIABILITIES	14,781	15,671
Total liabilities	254,567	245,489
MINORITY INTEREST	6,633	5,020
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock - $.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock - $.001 par value per share; 100,000,000 shares authorized; 41,774,000 and 42,218,000 shares outstanding at December 31, 2006 and June 30, 2007, respectively	42	42
Additional paid-in capital	557,082	573,955
Treasury stock at cost - 4,536,000 and 8,702,000 common shares at December 31, 2006 and June 30, 2007, respectively	(150,704)	(322,428)
Accumulated other comprehensive loss	(4,066)	(2,889)
Retained earnings	285,540	331,153
Total stockholders' equity	687,894	579,833
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 949,094	$ 830,342

See Notes to Unaudited Consolidated Financial Statements.

CYMER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share data)

	For the three months ended June 30, 2006	For the three months ended June 30, 2007	For the six months ended June 30, 2006	For the six months ended June 30, 2007
REVENUES:				
Product sales	$ 132,081	$ 121,695	$ 256,983	$ 247,854
Product sales - related party	3,209	870	5,363	1,336
Other	89	370	150	459
Total revenues	135,379	122,935	262,496	249,649
COSTS AND EXPENSES:				
Cost of product sales	70,556	56,719	139,247	121,785
Research and development	18,803	20,091	36,927	39,393
Sales and marketing	7,367	5,781	14,216	12,750
General and administrative	9,630	9,729	18,810	18,539
Total costs and expenses	106,356	92,320	209,200	192,467
OPERATING INCOME	29,023	30,615	53,296	57,182
OTHER INCOME (EXPENSE):				
Foreign currency exchange gain - net	480	2	1,099	429
Interest and other income	5,493	5,806	12,479	12,223
Interest and other expense	(1,505)	(1,524)	(2,907)	(3,103)
Total other income - net	4,468	4,284	10,671	9,549
INCOME BEFORE INCOME TAX PROVISION AND MINORITY INTEREST	33,491	34,899	63,967	66,731
INCOME TAX PROVISION	11,579	10,862	22,133	23,089
MINORITY INTEREST	690	897	1,371	1,613
NET INCOME	$ 22,602	$ 24,934	$ 43,205	$ 45,255
EARNINGS PER SHARE:				
Basic earnings per share	$ 0.58	$ 0.71	$ 1.13	$ 1.25
Weighted average common shares outstanding	38,992	35,121	38,084	36,189
Diluted earnings per share	$ 0.55	$ 0.67	$ 1.07	$ 1.19
Weighted average common and dilutive potential common shares outstanding	42,708	38,423	41,892	39,512

See Notes to Unaudited Consolidated Financial Statements.

CYMER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	For the six months ended June 30, 2006	2007
OPERATING ACTIVITIES:		
Net income	$ 43,205	$ 45,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,727	12,706
Non-cash stock-based compensation	4,958	3,044
Minority interest	(1,371)	(1,613)
Provision for deferred income taxes	8,883	13,102
Loss on disposal and impairment of property and equipment	6	298
Change in assets and liabilities:		
Accounts receivable – net	(25,091)	9,972
Accounts receivable – related party	(2,922)	(360)
Income taxes receivable	(3,028)	(6,525)
Foreign currency forward exchange contracts	1,556	(442)
Inventories	(24,059)	(16,988)
Prepaid expenses and other assets	(551)	(1,854)
Accounts payable	2,225	(3,810)
Accounts payable - related party	(366)	(3,416)
Accrued expenses and other liabilities	7,572	(4,084)
Unearned income	830	368
Income taxes payable	(7,268)	(2,983)
Net cash provided by operating activities	17,306	42,670
INVESTING ACTIVITIES:		
Acquisition of property and equipment	(6,478)	(7,598)
Purchases of investments	(98,271)	(44,029)
Proceeds from sold or matured investments	61,901	194,369
Acquisition of patents	(8,200)	(121)
Acquisition of minority interest	(7,024)	—
Net cash provided by (used in) investing activities	(58,072)	142,621
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	98,696	12,059
Excess tax benefits from stock option exercises	17,772	1,770
Repurchase of common stock into treasury	—	(171,724)
Net cash provided by (used in) financing activities	116,468	(157,895)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,694	1,114
NET INCREASE IN CASH AND CASH EQUIVALENTS	78,396	28,510
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	233,745	302,098
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 312,141	$ 330,608
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 2,621	$ 2,633
Income taxes paid, net	$ 4,831	$ 17,384

See Notes to Unaudited Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended June 30, 2007
(Unaudited)

1. BASIS OF PRESENTATION

Unaudited Interim Financial Statements

The accompanying consolidated financial information has been prepared by Cymer, Inc., and its wholly-owned and majority-owned subsidiaries (collectively, "Cymer"), without audit, in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. The consolidated balance sheet at December 31, 2006 was derived from the audited financial statements at that date; however, it does not include all disclosures required by accounting principles generally accepted in the United States.

In the opinion of management, the unaudited consolidated financial statements for the interim period presented reflect all material adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations as of and for such periods indicated. These unaudited consolidated financial statements and notes hereto should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006. Results for the interim periods presented herein are not necessarily indicative of results that may be reported for any other interim period or for the fiscal year ending December 31, 2007.

Principles of Consolidation – The accompanying consolidated financial statements include our accounts and the accounts of our wholly owned subsidiaries – Cymer Japan, Inc. ("Cymer Japan"), Cymer Singapore Pte Ltd. ("Cymer Singapore"), Cymer B.V. in the Netherlands ("Cymer B.V."), Cymer Southeast Asia, Ltd, in Taiwan ("Cymer SEA"), Cymer Semiconductor Equipment Shanghai Co., Ltd, in the People's Republic of China ("Cymer PRC"), Cymer Korea, Inc. ("Cymer Korea"), and our majority-owned subsidiary, TCZ Pte Ltd., a company incorporated in Singapore ("TCZ Singapore"), of which we own 60%. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

2. STOCKHOLDERS' EQUITY

2005 Equity Incentive Plan – We grant stock options and stock units from our 2005 Equity Incentive Plan (the "Incentive Plan"), which provides for the issuance of incentive stock options, non-statutory stock options, stock appreciation rights, stock bonus awards, stock purchase awards, stock unit awards and other stock awards to our employees and non-employee directors and consultants. Options issued under the Incentive Plan expire ten years after the options are granted and generally vest and become exercisable ratably over a four-year period following the date of grant. Stock units issued under the Incentive Plan generally vest one to four years from the date granted.

At our annual meeting of stockholders held on May 17, 2007, our stockholders approved the amendment and restatement of our 2005 Equity Incentive Plan to increase the number of shares of common stock authorized for issuance from a total of 1,000,000 shares to a total of 2,000,000 shares and to also expand the type and nature of the awards available for grant under the Incentive Plan to include cash awards that qualify as "performance-based compensation".

2007 Long-Term Incentive Plan – On April 16, 2007, the compensation committee of our board of directors adopted the Long-Term Incentive Bonus Plan ("LTIP") for 2007. Per the provisions of the plan, any bonuses accrued for performance in 2007 will be paid 50% in cash and 50% in the form of restricted stock unit awards under our Incentive Plan. The number of shares subject to the target restricted stock unit awards for 2007 will be determined by dividing the cash value of the award by $44.57, the closing price of our common stock as reported on the Nasdaq Global Select Market on April 16, 2007, the grant date.

These restricted stock unit awards represent a form of stock-based award in which the number of shares received by our key employees and executive officers ultimately depends on certain financial and performance criteria as set forth in our 2007 LTIP are met. The purpose of these awards is to attract and retain key employees and executive officers and to provide an incentive to achieve certain financial and individual corporate objectives by our key employees and executive officers. These restricted stock unit awards will vest only if specific goals are achieved as outlined in our 2007 LTIP. The restricted stock unit award portion of the LTIP will vest in three equal annual installments beginning January 1, 2009 after it is determined that the required service and performance condition has been achieved for 2007.

We value the stock unit awards which are issued to our non-employee directors and key employees using an intrinsic calculation based on the price of our stock on the date that the stock unit award is granted. Compensation expense related to these stock unit awards is recognized straight line over the service period. For those stock unit awards that have performance-based conditions, such as those granted under our LTIP Plan, we adjust the compensation expense over the service period based upon the expected achievement of the performance conditions. The fair value of stock-based options granted, less expected forfeitures, is recognized to expense over the requisite service period.

Share-Based Compensation – The components of share-based compensation expense for employees, non-employee directors and non-employees for the three and six months ended June 30, 2006 and 2007 are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2006	2007	2006	2007
Stock Options - employees	$ 2,209	$ 1,072	$ 4,490	$ 2,230
Stock Options - non-employees or change in status	55	87	147	109
Restricted stock unit awards - employees	—	354	—	354
Restricted stock units - non-employee directors	175	175	321	351
Total Share-Based Compensation	$ 2,439	$ 1,688	$ 4,958	$ 3,044

The actual tax benefit realized for share-based compensation for the six months ended June 30, 2006 and 2007 totaled approximately $17.8 million and $1.8 million, respectively.

Stock Repurchase Program - On April 24, 2007, we announced that our board of directors had authorized us to repurchase up to $300 million of our common stock in the open market or in privately negotiated transactions. The program may be discontinued at any time. Through June 30, 2007, we had purchased 4,166,300 shares for $171.7 million under this program.

3. EARNINGS PER SHARE

Earnings Per Share — Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income or loss attributable to common stockholders by the weighted-average of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (convertible subordinated notes using the "if-converted" method, warrants to purchase common stock and common stock options using the treasury stock method) were exercised or converted into common stock. Potential dilutive securities are excluded from the diluted EPS computation in loss periods as their effect would be anti-dilutive.

The following table sets forth the reconciliation of net income, diluted net income, weighted average shares outstanding, diluted weighted average shares outstanding and basic and diluted EPS (in thousands, except per share information):

	Three months ended June 30,		Six months ended June 30,	
	2006	2007	2006	2007
NET INCOME:				
Net income, as reported	$ 22,602	$ 24,934	$ 43,205	$ 45,255
Adjustment for interest expense on convertible subordinated notes, net of taxes	918	967	1,791	1,791
Net income, diluted (adjusted for assumed conversion)	$ 23,520	$ 25,901	$ 44,996	$ 47,046
WEIGHTED AVERAGE SHARES:				
Basic weighted average common shares outstanding	38,992	35,121	38,084	36,189
Effect of dilutive securities:				
Warrants	32	—	47	—
Options and stock units	870	488	947	509
Convertible subordinated notes	2,814	2,814	2,814	2,814
Diluted weighted average common and potential common shares outstanding	42,708	38,423	41,892	39,512
Earnings per share:				
Basic	$ 0.58	$ 0.71	$ 1.13	$ 1.25
Diluted	$ 0.55	$ 0.67	$ 1.07	$ 1.19

For the three months ended June 30, 2006 and 2007, weighted average options to purchase shares of common stock totaling approximately 354,000 and 780,000 shares were not included in the computation of diluted earnings per share as their effect was anti-dilutive. For the six months ended June 30, 2006 and 2007, weighted average options to purchase shares of common stock totaling approximately 421,000 and 764,000 shares were not included in the computation of diluted earnings per share as their effect was anti-dilutive.

4. INVENTORIES

Inventories are carried at the lower of cost, which approximates the first-in, first-out method, or market and consisted of the following (in thousands):

	December 31, 2006	June 30, 2007
INVENTORIES:		
Raw materials	$ 33,472	$ 38,159
Work-in-progress	19,373	22,828
Finished goods	51,451	60,297
Total	$ 104,296	$ 121,284

5. REPORTING COMPREHENSIVE INCOME

Comprehensive income includes net income, unrealized gains and losses on effective forward contracts, foreign currency translation adjustments, net unrealized pension gains and losses and unrealized gains and losses on available-for-sale securities which are recorded as short-term and long-term investments in the accompanying consolidated balance sheets.

The following are the components of comprehensive income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Net income	$ 22,602	$ 24,934	$ 43,205	$ 45,255
Foreign currency translation adjustments	17	1,141	2,692	1,114
Unrealized gain (loss) on available-for-sale investments, net of tax	61	(59)	105	100
Net unrealized gain (loss) on foreign currency forward exchange contracts, net of tax	(28)	(40)	56	(34)
Net unrealized pension loss	—	(3)	—	(3)
Comprehensive income	$ 22,652	$ 25,973	$ 46,058	$ 46,432

The components of accumulated other comprehensive loss are as follows (in thousands):

	December 31, 2006	June 30, 2007
Foreign currency translation adjustments	$ (3,984)	$ (2,870)
Unrealized gain (loss) on available-for-sale investments, net of tax	(92)	8
Unrealized gain (loss) on foreign currency forward exchange contracts, net of tax	17	(17)
Net unrealized pension loss	(7)	(10)
Accumulated other comprehensive loss	$ (4,066)	$ (2,889)

6. INCOME TAXES

We adopted the provisions of Financial Accounting Standard Board (“FASB”) Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes”, on January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position.

As of the date of adoption, our gross liability for income taxes associated with uncertain tax positions totaled $19.6 million, including interest and penalties. As a result of the implementation of FIN 48, we recognized an increase of $9.4 million to reserves for uncertain tax positions, of which $5.7 million was recorded to deferred tax assets, $3.4 million was recorded to long term income taxes receivable, $687,000 was recorded to tax expense and the remaining $358,000 was recorded as a cumulative effect adjustment to increase retained earnings. The FIN 48 liability is presented net of the related long term income taxes receivable and deferred tax asset balances on the accompanying consolidated balance sheet. Included in the balance of unrecognized tax benefits at January 1, 2007 is $10.5 million of tax benefits that, if recognized, would affect our effective tax rate. Also included in the balance of unrecognized tax benefits at January 1, 2007 is $9.1 million of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred tax assets and long term income taxes receivable.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of January 1, 2007, we had approximately $640,000 of accrued interest and penalties related to uncertain tax positions.

We are subject to taxation in the United States and in various states and foreign jurisdictions. We are currently under Internal Revenue Service ("IRS") audit for the 2003 and 2004 tax years. Though the estimated completion date of the audit is not known, it is possible that the audit will be completed within the next twelve months. The completion of this audit could require a material change to our gross unrecognized tax benefits. However, based on the status of this audit and the protocol for finalizing such audits, it is not possible to estimate the impact of this audit on previously recorded uncertain tax positions. In addition, we do not foresee material changes to the state or foreign uncertain tax positions within the next twelve months.

Our tax years 2003 and forward are subject to examination by the IRS, our tax years 2000 and forward are subject to examination by material state jurisdictions, and our tax years 2002 and forward are subject to examination by material foreign jurisdictions.

7. GUARANTEES/WARRANTIES

In the ordinary course of business, we are not subject to potential obligations under guarantees that fall within the scope of FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", except for standard warranty provisions associated with product sales and indemnification provisions related to intellectual property that are contained within many of our lithography tool manufacturer agreements. All of these provisions give rise only to the disclosure requirements prescribed by FIN 45 except for product warranties.

(a) Product Warranties – Warranty provisions contained within our lithography tool manufacturer agreements are generally consistent with those prevalent in the semiconductor equipment industry. We record a provision for warranty for all products, which is included in cost of product sales in the consolidated statements of operations and is recorded at the time that the related revenue is recognized. The warranty period and terms for light source systems and spares and consumable parts varies by light source system model. We review our warranty provision monthly, which is determined using a statistical financial model that calculates actual historical expenses, product failure rates, and potential risks associated with our different product models. We then use this financial model to calculate the future probable expenses related to warranty and the required level of the warranty provision. Throughout the year we review the risk levels, historical cost information and failure rates used within this model and update them as information changes over the product's life cycle. If actual warranty expenditures differ substantially from our estimates, revisions to the warranty provision would be required. Actual warranty expenditures are recorded against the warranty provision as they are incurred.

The following table summarizes information related to our warranty provision (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Beginning product warranty balance	$ 31,050	$ 30,200	$ 30,191	$ 29,450
Liabilities accrued for warranties issued, net of adjustments and expirations	5,121	2,807	11,470	7,892
Warranty expenditures incurred	(4,786)	(4,032)	(10,276)	(8,367)
Ending product warranty balance	$ 31,385	$ 28,975	$ 31,385	$ 28,975

(b) Intellectual Property Indemnifications – We include intellectual property indemnification clauses within our general terms and conditions with our customers and the general purchase agreements with our three lithography tool manufacturers, ASML, Canon, and Nikon. In general, these indemnification provisions provide that we defend our customers against certain infringement claims directed against our products. Under the indemnification clauses, we would pay costs and damages attributable to the infringement claims, including attorney's fees, associated with settlements or defenses in respect of such claims, provided that the lithography tool manufacturer used the tool in accordance with our recommendations and did not modify the tool or incorporate technology or features that were not of our design, and provided further that the lithography tool manufacturer follows specific procedures for notifying us of such claims and allows us to manage the defense and settlement proceedings.

An indemnification provision was included in the contract manufacturing agreement with Seiko Instruments, Inc. ("Seiko"), our former Japanese manufacturing partner, which was terminated March 31, 2003. We continue to honor this indemnification clause within the agreement after the termination of the contract manufacturing agreement with respect to those products manufactured by Seiko while the agreement was in force as with other indemnification provisions on intellectual property. Seiko and at least one Japanese lithography tool manufacturer were notified in 1996 that our light source systems in Japan may infringe certain Japanese patents. We believe, based upon the advice of counsel, that our products do not infringe any valid claim of the asserted patents or that we are entitled to prior use claims in Japan.

As part of the original research and development agreement signed with Intel Corporation ("Intel") in 2004 and amended in July 2006, we agreed to provide Intel with indemnity against any infringement of the intellectual property rights of any third party arising from Intel's purchase and/or use of our EUV source systems. Under the terms of this agreement, as amended, our obligations to indemnify Intel will be specifically negotiated in any purchase agreement related to such future products.

As part of the original supply agreement signed with TCZ in September 2005 and amended in September 2006 in connection with the amendment and restatement of the original TCZ joint venture agreement, we agreed to indemnify TCZ against any infringement of the intellectual property rights of a third party arising from TCZ's purchase of our products. We will defend such actions at our own expense and will pay the cost and damage awarded in any such action provided that TCZ grants us sole control of the defense and settlement of such action and also provides us with information required for the defense and settlement of such action.

Due to the nature of the indemnification provisions described above, these provisions are indefinite and extend beyond the term of the actual agreements.

8. RELATED PARTY TRANSACTIONS

As a result of the formation of our TCZ joint venture in July 2005 and under the terms of the joint venture agreement which was amended in September 2006, Zeiss is a related party. In addition to transactions that occur among us, Zeiss and TCZ Singapore related to the joint venture, we also purchase certain optical parts directly from Zeiss and periodically sell our light source system products to Zeiss. Associated with these transactions, we recorded revenue of $3.2 million and $870,000 for the three months ended June 30, 2006 and 2007, respectively, and $5.4 million and $1.3 million for the six months ended June 30, 2006 and 2007, respectively. As of December 31, 2006 and June 30, 2007, we had accounts receivable balances of $834,000 and $1.2 million, respectively, and accounts payable balances of $4.9 million and $1.4 million, respectively, all of which were associated with these related party transactions with Zeiss.

9. CONTINGENCIES AND COMMITMENTS

We are party to legal actions in the normal course of business. Based in part on the advice of legal counsel, our management does not expect the outcome of legal action in the normal course of business to have a material impact on our financial position, liquidity, or results of operations.

Our former Japanese manufacturing partner, Seiko, and one of our Japanese customers were notified in July 1996 that our light source systems in Japan may infringe certain Japanese patents held by another Japanese company. We have agreed to indemnify our former Japanese manufacturing partner and our customers against patent infringement claims under certain circumstances, even after the termination date of the contract manufacturing agreement. We believe, based upon the advice of counsel, that our products do not infringe any valid claim of the asserted patents or that we are entitled to prior use claims in Japan.

10. SUBSEQUENT EVENT

Total purchases under our $300 million stock repurchase program through August 3, 2007 were $233.7 million or 5,745,000 shares of which $171.7 million or 4,166,300 shares were repurchased through June 30, 2007. As of August 3, 2007, we have $66.3 million of the original authorization available for future purchases of our common stock under this program.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited interim consolidated financial statements and notes thereto included in "Item 1. Financial Statements" of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and the section titled "Item 7. Managements Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities Exchange Commission on February 28, 2007 .

Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q that are not strictly historical in nature are forward-looking statements. These statements include, but are not limited to, references to the outlook for the semiconductor industry and us; expected domestic and international product sales and development; our research and development activities and expenditures; adequacy of our capital resources and investments; effects of business cycles in the semiconductor business; our competitive position; and our relationships with customers and third-party manufacturers of our products, and may contain words such as "believes," "anticipates," "expects," "plans," "intends" and words of similar meaning. These statements are predictions based on current information and our expectations and involve a number of risks and uncertainties. The underlying information and our expectations are likely to change over time. Actual events or results may differ materially from those projected in the forward-looking statements due to various factors, including, but not limited to, those contained under the caption "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Forward-looking statements herein speak only as of the date of this Quarterly Report on Form 10-Q. Unless required by law, we undertake no obligation to update or revise any forward-looking statements to reflect new information or future events or developments. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements.

Overview

General

We are the world's leading supplier of light source solutions for the semiconductor industry. Our products provide the essential light source for deep ultraviolet ("DUV") photolithography systems. Almost all consumer electronic devices manufactured in the last several years contain a semiconductor manufactured using light sources such as ours. We currently supply light sources to each of the three DUV lithography tool manufacturers, ASML, Canon, and Nikon, who in turn supply their wafer steppers and scanners to chipmakers. In addition, we sell replacement parts and services to the lithography tool manufacturers as well as directly to the chipmakers. Our light source systems currently constitute a substantial majority of all excimer light sources incorporated in lithography stepper and scanner tools. Our headquarters are located in San Diego, California where we develop and manufacture all of our light source systems and the majority of our replacement parts. As a large portion of our revenue is derived from customers located outside of the U.S., we maintain a replacement parts refurbishment facility and field service office in Korea and field service and support offices in Japan, the Netherlands, the People's Republic of China, Singapore and Taiwan. Japan is currently our only subsidiary office that sells excimer light source systems. We also maintain field service offices in the U.S. to service our installed base of light sources located in the U.S.

We are also the majority owner of a joint venture called TCZ which is currently headquartered in Singapore. TCZ is currently developing, and will integrate, market and sell, and support production tools for the flat panel display manufacturing industry. The joint venture is targeting the growing market for low-temperature poly-silicon ("LTPS") processing used in the manufacture of liquid crystal displays that are brighter, have higher resolution, and consume less power than displays using today's predominant amorphous silicon films. Although TCZ's product is currently in the development phase, TCZ performed extensive customer demonstrations on its first generation demonstration tool in 2006 and will continue to do so throughout 2007. We currently expect that TCZ will ship its first production tool, the TCZ 900X, in 2008.

Products

Our products primarily consist of photolithography light source systems, replacement parts, and service.

Our excimer light sources for photolithography produce pulsed light of extremely short wavelengths within the DUV spectrum. The bandwidth of the light is further narrowed through a number of optical techniques. The DUV wavelengths are measured in nanometers and the light sources are referred to according to either the wavelength or the gases that are mixed to produce the light. Krypton Fluoride ("KrF") gases produce light at a 248 nm wavelength, and Argon Fluoride ("ArF") gases produce light at a 193 nm wavelength. The extremely short wavelengths and highly narrowed bandwidths of light produced by these light sources enable the very fine feature resolution required for patterning or printing the circuitry on silicon wafers. The pulse energy and repetition rate of the light source permit high throughput in wafer processing. We have designed our light sources to be reliable, easy to install and service and compatible with existing semiconductor manufacturing processes. Our light sources are used to pattern or print the integrated circuits, which are also called semiconductors or "chips," that power many of today's advanced consumer and business electronics. In the second quarter of 2007, we sold 49 light source systems at an average selling price of $1.2 million.

Our product development strategy has been to develop new products in rapid succession to meet continually evolving needs in the marketplace, thus rendering our competitors' products obsolete. This strategy strengthens our market leadership position since the ongoing reduction of critical dimension ("CD") on the wafer drives demand for newer, more advanced, higher value-added light sources.

Over the years, we have developed and sold a wide variety of photolithography light source products. These products can be divided into KrF and ArF product categories and include a number of current products as well as legacy products that we continue to service in our installed base.

Certain components and subassemblies included in our light sources require replacement or refurbishment following extended operation. We estimate that a light source used in a semiconductor production environment will require one to two replacement chambers per year, depending upon the level of usage. Similarly, certain optical components of the light source deteriorate with continued exposure to DUV light and require periodic replacement. We provide these and other spare and replacement parts for our photolithography light sources as needed by our customers.

As the life and usage of our installed base of light sources in production at chipmakers exceeds the original warranty periods, some chipmakers request service contracts from us. Additionally, we provide billable service or service contracts directly to the three semiconductor lithography tool manufacturers. These service agreements require us to maintain and/or service these light sources either on an on-call or regular interval basis or both. Included in some of the types of service contracts we provide to our customers are the replacement of consumable parts and non-consumable parts. The pricing for such contracts includes the replacement of these parts.

Semiconductor Industry Status and Outlook

Since we derive a substantial portion of our revenues from lithography tool manufacturers, we are subject to the volatile and unpredictable nature of the semiconductor industry. The semiconductor industry is highly cyclical in nature and historically has experienced periodic ups and downs, many of them quite dramatic. In 2000, the semiconductor equipment industry experienced strong growth, which was followed by a severe three year downturn from 2001 through late 2003. Since then, industry cycles appear to have become more muted, and equipment manufacturers have experienced cycles involving relatively short periods of moderate growth, followed by relatively short periods when revenue has either flattened or declined moderately.

More recently, 2004 was a growth year for us, 2005 declined moderately and we achieved record revenue and net income levels in 2006. Although we initially expected 2007 to be another growth year for us, we started to see indicators in late 2006 and early 2007 that the growth of the semiconductor industry was slowing or flattening from the 2006 levels. In the fourth quarter of 2006 and the first quarter of 2007, we experienced delays in our anticipated shipment schedules when we received requests to reschedule shipment of a number of light sources from each of those quarters into subsequent quarters. In the second quarter of 2007, this trend continued as a number of chipmakers reduced capital equipment purchases in line with delays in their planned build-outs of new fabs. As a result of this recent slowing in the semiconductor industry, we have experienced decreases in several of the key financial metrics that we use to manage our business. Details on these financial metrics for the four most recent quarterly periods are included in the table below (in thousands, except for light source system unit shipments and margin percentages):

	Quarterly Financial Data			
	Three months ended			
	2006		2007	
	September 30	December 31	March 31	June 30 (1)
Light Source System Units Sold	67	68	51	49
Product Sales (2)	$ 143,809	$ 137,305	$ 126,625	$ 122,565
Gross Margin on Product Sales	49.59%	49.38%	48.62%	53.72%
Operating Income (1)	$ 34,979	$ 30,856	$ 26,567	$ 30,615
Operating Margin (1)	24.30%	22.45%	20.97%	24.90%
Net Income	$ 27,032	$ 25,411	$ 20,321	$ 24,934
Net Margin	18.78%	18.49%	16.04%	20.28%

(1) Although total revenue was lower in the second quarter of 2007 than other quarterly periods presented in this table, several of the financial metrics were higher in the second quarter of 2007. Higher gross margin on product sales and higher operating margin were primarily due to favorable material reclaim productivity improvements, increasing product reliability realization and lower operating expenses that were achieved during the second quarter of 2007.

(2) Consists of light source systems revenue and consumables and spare parts, upgrades and service revenues and material reclaim and refurbishment activities.

The outlook for the semiconductor industry is one of cautious optimism that stronger growth will resume at the end of 2007. The DRAM segment is still experiencing pricing pressure, but many believe DRAM will be in short supply by the end of this year. In the NAND Flash segment, inventories have decreased and prices improved, with increased quoting activity for new equipment being reported, driven by concerns about the potential shortage of Flash due in part to projected demand from products such as Apple Inc.'s iPhone. Further, we anticipate even stronger growth in 2008 as NAND Flash manufacturers continue to expand their immersion capacity and DRAM production reaches the critical dimensions requiring immersion. As the market leader, we are strongly positioned to benefit from this technology trend. However, macro-economic factors, such as high energy prices and interest rates and a slower U.S. housing market, could have a negative impact on consumer spending, including spending on electronic devices. Additionally, geopolitical turmoil can create a heightened sense of uncertainty that can cause consumers to become more cautious in their spending. Either or both of these factors would have a negative effect on the demand for our products.

In general, the longer-term technology and industry trends that affect photolithography are positive for us. Chipmakers continue to rapidly shrink the CDs on the wafer, which drives ongoing strong demand for more advanced ArF light sources. To meet this demand, we shipped 27 of our XLA Series light sources during the second quarter of 2007, with more than half of these being our XLA 300 and XLA 400 products, our most advanced light sources which target high volume immersion production.

To meet anticipated demand for advanced immersion tools for the 45nm production node and below, we have developed the XLR 500i, a new light source based on our production proven dual chamber Master Oscillator Power Amplifier ("MOPA") architecture. This light source replaces the traditional power amplifier with a regenerative ring amplifier, which results in improved stability and control during manufacturing, and a significant reduction in cost of operation for the chipmaker. We shipped the first XLR 500i qualification light source system to one of our lithography tool manufacturing customers in April 2007 and expect to ship a second qualification system to one of our other lithography tool manufacturing customers before the end of the third quarter of this year. We anticipate the adoption ramp for this product will begin in the second half of this year, and increase in the first half of 2008. In addition, we expect that the XLR 500i will become the light source of choice for 45nm production.

As we progress through 2007, we anticipate continuing to focus on better serving our customers, building a better company, and creating shareholder value. We continue on our path of technology leadership and innovation, and expect to introduce new, paradigm-shifting light sources in advance of market needs. In July 2007, we announced our XLR 600i, the first 90 watt ArF light source designed to enable high volume immersion and double patterning lithography at the 32 nm and beyond mode. We have also recently achieved some significant breakthroughs in our EUV source development which solidify our leadership position in this next generation technology, and we entered into a multi-year EUV supply agreement with ASML for which we have already received several purchase orders. We will continue our numerous efforts to add even higher levels of value for our customers and increase customer satisfaction, while pursuing our many initiatives to enhance overall operating efficiencies and improve financial performance and cash generation. In the first six months of 2007, we generated $42.7 million in cash from operations and we repurchased approximately 4.2 million shares of our common stock under our $300 million stock repurchase program authorized by our board of directors in April 2007. We expect to continue generating substantial levels of cash from operations in 2007 and we will continue to explore opportunities for the most effective use of our cash.

Critical Accounting Policies and Estimates

General

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and use judgment that may impact the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. As a part of our ongoing internal processes, we regularly evaluate our estimates and judgments associated with revenue recognition, valuation of parts used in our refurbishment manufacturing process, inventory allowances, warranty provisions, stock-based compensation, income taxes, allowances for bad debts, long-lived assets valuation, intangible assets valuation, and contingencies and litigation. We base these estimates and judgments upon historical information and other facts and assumptions that we believe to be valid and/or reasonable under the circumstances. These assumptions and facts form the basis for making judgments and estimates and for determining the carrying values of our assets and liabilities that are not apparent from other sources. Actual results could vary from our estimates if we were to use different assumptions and conditions.

We believe that revenue recognition, valuation of parts used in our refurbishment manufacturing process, inventory allowances, warranty provisions, stock-based compensation, and income taxes require more significant judgments and estimates in the preparation of our consolidated financial statements than do other of our accounting estimates and judgments.

Revenue Recognition

Our revenues consist of product sales, which include sales of light source systems, consumable and spare parts, upgrades, service, service contracts, training, and limited refurbishments of light source systems. Our revenues also consist of certain funded development activities performed for our customers and under government contracts and license agreements.

The sales of our light source systems generally include training and installation services. We determined these elements qualify as one unit of accounting under Emerging Issues Task Force (“EITF”) Bulletin No. 00-21, “Revenue Arrangements with Multiple Deliverables” as we do not have evidence of fair value for the undelivered training and installation elements. Furthermore, we determined that the undelivered training and installation elements are perfunctory performance obligations and are not essential to the functionality of our light source systems. Therefore, in accordance with the provisions of Staff Accounting Bulletin No. 104, we recognize revenue when the revenue recognition criteria are met for the light source system, and accrue the costs of providing the training and installation services. We recognize light source system revenue at one of following three points, depending on the terms of our arrangement with our customer – 1) shipment of the light source system, 2) delivery of the light source system or 3) receipt of an acceptance certificate. For the majority of our light source system sales, the shipping terms are F.O.B. shipping point and revenue is recognized upon shipment. For our arrangements which include F.O.B. destination shipping terms, revenue is recognized upon delivery of the light source system to our customer. Lastly, one of our arrangements includes an acceptance provision, which is satisfied by the issuance of an acceptance certificate by the customer. For these transactions, we recognize revenue upon receipt of the acceptance certificate. In addition, we test our light source systems in environments similar to those used by our customers prior to shipment to ensure that they meet published specifications.

Revenue from consumables and spare parts sales is recognized at the point that legal title passes to the customer, which is upon shipment from our facility. For a significant portion of our spare parts sales, our customers return the consumed assembly to us as part of the sale of the new part. We reuse some of the material within these core assemblies, mainly metal components, for the future build of core assemblies. As a result, our revenue consists of both cash and the value of the reusable parts received from our customers as consideration for these spare part sales. Revenue associated with our customers' return of core assemblies is recognized upon receipt of the returned core assembly. The amount of the revenue is determined based upon the fair value of the reusable parts that we expect to yield from the returned core assembly based on historical experience. Service and training revenue is recognized as the services are rendered.

On a very limited basis, we refurbish light source systems owned by our customers to their original or new condition. Revenue from refurbished light source systems is recognized when the refurbishment process has been completed and, depending upon the customer, the proper delivery or acceptance terms have been met.

For funded development contracts, funds received are accounted for on the percentage-of-completion method based on the relationship of costs incurred to total estimated costs. Revenues generated from these types of funded development contracts are included in other revenue, and are derived from cost sharing contracts between certain customers and us. If milestones on these funded development contracts require that specific results be achieved or reported by us, revenue is not recognized until that milestone is completed.

Accounting for Parts Used in Refurbishment Manufacturing Process

Over the last several years as part of our regular business activities, we have conducted significant parts refurbishment and material reclaim activities related to some of our core assemblies, in particular our chamber assemblies. The volume of this activity significantly increased in 2004 and we expect volumes to increase over time as our installed base of light sources continues to rise and we become more efficient in these refurbishment activities and develop capabilities to reclaim material from and refurbish other core assemblies. These activities involve arrangements with our customers where we sell a new part to the customer at a reduced sales price if the customer returns the consumed assembly that the new part replaces. These returned core assemblies contain a certain amount of material, primarily metal components, that may be reused by us in future core assemblies. Upon receipt of these consumed core assemblies from our customers, we record an entry to recognize the estimated fair value of the reusable components either 1) as revenue if the return of the core assembly relates to a spare part replacement sale or 2) as a reduction in cost of product sales if the return of the core assembly is related to a part being replaced under our warranty or per the terms of an active service contract with our customer. The value of the reusable parts contained within the consumed assembly is determined based upon historical data on the value of the reusable parts that we typically yield from a consumed assembly.

As part of our normal excess and obsolete inventory analysis, these consumed assemblies are also reviewed on a monthly basis and an inventory allowance is recorded as appropriate for these parts. The value that we assign to these core assemblies can be affected by the current demand for the reusable parts in our manufacturing operations and the actual yield rate achieved for reusable parts contained within these consumed core assemblies. We believe that our methodology for valuing the reusable parts within these returned core assemblies is reasonable, but any decreases in the demand for the parts or any changes in the yield of the reusable parts included in these core assemblies could have a material adverse effect on our financial condition and results of operations.

Inventory Allowance

We perform an analysis of our inventory allowances on at least a quarterly basis to determine the adequacy of this allowance on our financial statements. The amount of the inventory allowance is determined by taking into consideration certain assumptions related to market conditions and future demands for our products, including changes to product mix, new product introductions, and/or product discontinuances, which may result in excess or obsolete inventory. We determine the level of excess and obsolete inventory associated with our raw materials and production inventory, which includes all parts on hand from our refurbishment activities, by comparing the on hand inventory balances and inventory on order to the next 12 months of forecasted demand. We then adjust this calculation for inventory that has a high likelihood of use beyond one year or can be used in other products that may have lower demands. After this adjustment, we arrive at our total exposure for excess and obsolete inventory within our raw materials and production inventory. As part of this analysis, we also determine whether there are potential amounts owed to vendors as a result of cancelled or modified raw material orders. We estimate and record a separate liability, which is included in accrued and other liabilities in the accompanying balance sheets for such amounts owed.

The inventory allowance totaled $15.1 million and $11.8 million at December 31, 2006 and June 30, 2007, respectively. The decrease in the inventory allowance at June 30, 2007 as compared to December 31, 2006 was primarily due to certain parts in inventory previously reserved that were either scrapped or sold during the first half of 2007 as well as a reduction in the excess and obsolete requirements for parts contained in consumed assemblies which are received from our customers and are used in our refurbishment activities at June 30, 2007 as compared to December 31, 2006.

The methodologies used to analyze excess and obsolete inventory and determine the inventory allowance are significantly affected by future demand and usage of our products. There are many factors that could potentially affect the future demand or usage of our products, including the following:

- Overall condition of the semiconductor industry, which is highly cyclical in nature;
- Rate at which our lithography tool manufacturers and chipmaker customers take delivery of our light source systems and our consumable and spare parts;
- Loss of any of our three major customers or a significant change in demand from any of these three customers;
- Overall mix of light source system models or consumable and spare parts and any changes to that mix required by our customers;
- Utilization rates of our light sources at chipmakers; and
- Engineering change orders.

Based upon our experience, we believe that the estimates we use in calculating the inventory allowance are reasonable and properly reflect the risk of excess and obsolete inventory. If actual demand or the usage periods for our inventory are substantially different from our estimates, additional inventory allowances may be required, and may have a material adverse effect on our financial condition and results of operations.

Warranty Provision

We maintain an accrual for the estimated cost of product warranties associated with our product sales. Warranty costs include the replacement parts and labor costs to repair our products during the warranty periods. At the time revenue is recognized, we record a warranty provision, which is included in cost of product sales in the accompanying consolidated statements of operations. The warranty coverage period and terms for light source systems and consumable and spare parts varies by light source system model. The warranty provision for our products is reviewed monthly and determined by using a statistical financial model, which takes into consideration actual historical expenses, product failure rates, and potential risks associated with our different products. This model is then used to estimate future expenses related to warranty and the required warranty provision. The risk levels and historical cost information and failure rates used within this model are reviewed throughout the year and updated as these inputs change over the product's life cycle. Due to the highly technical nature of our light source system products, the newer model light sources and the modules contained within them have higher inherent warranty risks with their initial shipments and require higher warranty provisions until the technology becomes more mature.

The total balance in the warranty provision accrual as of December 31, 2006 and June 30, 2007 remained relatively stable at \$29.5 million and \$29.0 million, respectively. This slight decrease from period to period is primarily due to a lower number of light source systems being under warranty and lower warranty reserve requirements due to an overall improvement of the reliability of our light source products from period to period.

We actively engage in product improvement programs and processes to limit our warranty costs, but our warranty obligation is affected by the complexity of our product, product failure rates and costs incurred to correct those product failures at customer sites. The industry in which we operate is subject to rapid technological change, and as a result, we periodically introduce newer, more complex light sources. Although we classify these newly released light source models as having a higher risk in our warranty model resulting in higher warranty provisions, we are more likely to have differences between the estimated and actual warranty costs for these new products. This is due to limited or no historical product performance data on which to base our future warranty costs. Warranty provisions for our older and more established light source models are more predictable as we have more historical information available on these products. If actual product failure rates or estimated costs to repair those product failures were to differ from our estimates, revisions to our estimated warranty provision would be required, which could harm our financial condition and results of operations.

Stock-Based Compensation

We grant options to purchase our common stock to our employees, stock unit awards to our non-employee directors and performance-based stock unit awards to key employees, including our executive officers, under our 2005 Equity Incentive Plan. The benefits provided under this plan are share-based payments subject to the provisions of Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R"), "Share-Based Payment". SFAS No. 123R addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. As a result of this accounting requirement, our consolidated financial statements include compensation expense as calculated per the provisions of SFAS No.123R. We attribute the value of share-based compensation to expense using the straight-line method for awards granted after December 31, 2005. Compensation expense for awards outstanding and unvested as of December 31, 2005 are being recognized over the remaining service period using the compensation expense calculated according to the pro forma disclosure provisions under SFAS No. 123, "Accounting for Stock-Based Compensation", which uses an accelerated expense recognition method for those awards with a graded vesting schedule. Share-based compensation expense related to stock options and stock units before taxes was \$2.4 million and \$1.7 million, respectively, for the three months ended June 30, 2006 and 2007, respectively, and $5.0 million and $3.0 million for the six months ended June 30, 2006 and 2007, respectively.

We value the stock unit awards which are issued to our non-employee directors and key employees using the fair market value of the underlying stock at the date of grant. Compensation expense related to these stock unit awards is recognized straight line over the service period. For those stock unit awards that have performance based conditions, we adjust the compensation expense over the service period based upon the expected achievement of the performance condition.

We value the stock option awards using the Black-Scholes option pricing model. The determination of fair value of stock-based payment awards on the date of grant is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These assumptions include the expected term of stock options and our expected stock price volatility over the expected term of the awards.

We determine our expected volatility by using a combination of historical and implied volatility, or blended volatility, to derive our expected volatility assumption as allowed under SFAS No. 123R and Staff Accounting Bulletin No. 107. Implied volatility is based on our six-month traded options on our common stock. We determined that the volatility calculated using a blend of implied volatility and our historical volatility is more reflective of expected volatility than using only historical volatility. The expected term of stock options represents the weighted-average period the stock options are expected to remain outstanding. We determine the expected term of our stock options based on observed historical exercise patterns for our company, which we believe are indicative of future exercise behavior.

Other assumptions required for estimating fair value under the Black-Scholes option pricing model include the expected risk-free interest rate and expected dividend yield of our stock. Our risk-free interest rate assumption is based upon the most current available rates on zero coupon U.S. Government issues for the expected term of our stock options. The expected dividend rate is not applicable to us as we have not historically declared or paid dividends, nor do we anticipate paying cash dividends in the future.

SFAS No. 123R also requires forfeitures to be estimated at the time of grant of the stock option or stock unit award and we have estimated our forfeitures based on historical experience. We have revised this estimate in the past and will revise this estimate, as necessary, in subsequent periods if actual forfeiture rates differ from our current estimates.

If we change any of the key assumptions that we use in the Black-Scholes option pricing model such as expected volatility or expected term or if we decide to use a different valuation model in the future or change our forfeiture rate, the compensation expense that we record under SFAS No. 123R may differ significantly in the future from what we have recorded in the current period.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (“SFAS No. 109”), “Accounting for Income Taxes.” Pursuant to SFAS No. 109, a deferred tax asset or liability is generally recognized for the estimated future tax effects attributable to temporary differences, net operating loss (“NOL”) carryforwards and tax credit carryforwards. Deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized within the carryback or carryforward periods. Information about an enterprise’s current financial position and its results of operations for the current and preceding years, as well as all currently available information about future years should be considered.

We have considered our industry’s outlook for the future, our historical performance and estimated future taxable income, and ongoing tax planning strategies in assessing the need for a valuation allowance. Using this information, we have prepared a model to forecast our expected taxable income in future years and to estimate when the benefits of our deferred tax assets are likely to be realized. Based upon the analysis, with the exceptions noted below, we believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize all of our deferred tax assets within the period covered by our model and, as such, no valuation allowance has been provided against these deferred tax assets. However, a valuation allowance has been provided against certain deferred tax assets related to TCZ's business and our French branch operations in the total amount of $1.3 million, as these businesses have not yet developed sufficiently to allow us to assert that these assets will ultimately be realized.

A material adverse change in the outlook for worldwide lithography tool sales, the expected selling prices or profit margins for our products or our expected share of the global market for lithography light sources, could cause us to determine that additional valuation allowances are needed for some or all of our deferred tax assets, and would result in an increase to our income tax provision in the period in which such determination is made.

It is our intention to reinvest undistributed earnings of our foreign subsidiaries and thereby indefinitely postpone their remittance, with the exception of our TCZ joint venture. Accordingly, we have not provided U.S. federal income and foreign withholding taxes on $62.7 million of undistributed earnings from non-U.S. operations as of June 30, 2007. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings.

RESULTS OF OPERATIONS

The following table sets forth certain items in our consolidated statements of operations as a percentage of total revenues for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2006	2007	2006	2007
Revenues:				
Product sales	97.5%	99.0%	97.9%	99.3%
Product sales - related party	2.4	0.7	2.0	0.5
Other	0.1	0.3	0.1	0.2
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost and expenses:				
Cost of product sales	52.1	46.1	53.0	48.8
Research and development	13.9	16.3	14.1	15.8
Sales and marketing	5.5	4.7	5.4	5.1
General and administrative	7.1	7.9	7.2	7.4
Total costs and expenses	78.6	75.0	79.7	77.1
Operating income	21.4	25.0	20.3	22.9
Total other income - net	3.3	3.4	4.1	3.8
Income before income tax provision and minority interest	24.7	28.4	24.4	26.7
Income tax provision	8.5	8.8	8.4	9.3
Minority interest	0.5	0.7	0.5	0.7
Net income	16.7%	20.3%	16.5%	18.1%
Gross margin on product sales	47.9%	53.7%	46.9%	51.1%

Three Months Ended June 30, 2006 and 2007

Revenues. The following table summarizes certain measures and the components of our revenue (in thousands, except units sold):

	For the three months ended June 30, 2006		For the three months ended June 30, 2007	
Light source systems:				
Revenue	$	72,629	$	58,039
Units sold		75		49
Average selling price	$	968	$	1,184
Consumable and spare parts and service products	$	62,661	$	64,526
Other revenue	$	89	$	370
Total revenue	$	135,379	$	122,935

Product sales decreased 9% from $135.3 million for the three months ended June 30, 2006 to $122.6 million for the three months ended June 30, 2007. This decrease in product sales was due to a decline in light source system sales which was partially offset by an increase in consumable and spare parts and service product sales for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006. Light source system revenues decreased 20% from $72.6 million for the three months ended June 30, 2006 to $58.0 million for the three months ended June 30, 2007. A total of 75 light source systems were sold in the three months ended June 30, 2006 at an average selling price of $968,000, compared to 49 light source systems sold in the three months ended June 30, 2007 at an average selling price of $1.2 million. On a foreign currency adjusted basis, the average selling price for the three months ended June 30, 2006 and 2007 was $958,000 and $1.2 million, respectively. The increase in the average selling price from period to period is due to the product mix being more weighted toward our newer ArF light source systems. ArF light source systems represented 76% of light source systems revenue for the three months ended June 30, 2007 as compared to only 64% for the three months ended June 30, 2006. The decrease in quantities of light source systems sold from period to period was due to the slowing and flattening of the semiconductor industry in the first half of 2007 as compared to the 2006 levels.

Growth in the installed base and steady utilization of our light source systems has generated demand for consumables and spare parts and service products. The increase in this demand resulted in an increase in consumables and spare parts and service product revenue of 3% from $62.7 million for the three months ended June 30, 2006 to $64.5 million for the three months ended June 30, 2007. Revenues from funded development contracts were $89,000 and $370,000 for three months ended June 30, 2006 and 2007, respectively. There were no revenues recorded or earned associated with the TCZ joint venture for the three months ended June 30, 2006 or 2007.

For the period ended June 30, 2007, our backlog totaled $91.9 million and total bookings were $131.5 million which yielded a book-to-bill ratio of 1.07 compared to the period ended June 30, 2006, where our backlog was $92.2 million and total bookings were $128.3 million yielding a book-to-bill ratio of 0.95. The increase in bookings and book to bill ratio primarily reflects the strength of demand for our most advanced ArF immersion products and their corresponding higher selling prices.

We installed 80 light sources at chipmakers and other end-users during the quarter ended June 30, 2006 as compared to 60 light sources installed during the quarter ended June 30, 2007.

Our sales are generated primarily by shipments to customers in Europe, Japan, Korea, Taiwan, and the U.S. Approximately 85% of our sales for both the three months ended June 30, 2006 and 2007, were derived from customers outside the U.S. We maintain a wholly owned Japanese subsidiary, Cymer Japan, which sells to our Japanese customers. Revenues from Japanese customers, generated primarily by Cymer Japan, accounted for 21% of total revenues for both the three months ended June 30, 2006 and 2007. The activities of Cymer Japan are limited to sales and service of products purchased by Cymer Japan from us as the parent corporation. We anticipate that international sales will continue to account for a significant portion of our sales.

Cost of Product Sales. Cost of product sales includes direct material and labor, warranty expenses, license fees, manufacturing and service overhead. Cost of product sales also includes foreign exchange gains and losses on foreign currency forward exchange contracts ("forward contracts") associated with purchases of our products by Cymer Japan for resale under firm third-party sales commitments. Shipping costs associated with our product sales are also included in cost of product sales and are not charged to our customers.

The cost of product sales decreased 20% from $70.6 million for the three months ended June 30, 2006 to $56.7 million for the three months ended June 30, 2007. This decrease in cost of product sales was primarily due to lower light source system sales and a decrease in warranty costs for the three months ended June 30, 2007 compared to the three months ended June 30, 2006. The gross margin on product sales was 48% for the three months ended June 30, 2006 as compared to 54% for the three months ended June 30, 2007 This higher gross margin from period to period primarily resulted from favorable material reclaim productivity improvements and reduced warranty costs due to increased product reliability realization during the period. Although we will continue to look for opportunities to enhance operating efficiencies and benefits from our on-going product cost reduction activities for the remainder of 2007, we do not expect to achieve the same high level of gross margin on product sales that we did in the second quarter of 2007.

Research and Development. Research and development expenses include costs of internally-funded projects as well as continuing product development support expenses, which consist primarily of employee and material costs, depreciation of equipment and other engineering related costs. Research and development expenses increased 7% from $18.8 million for the three months ended June 30, 2006 to $20.1 million for the three months ended June 30, 2007 due primarily to costs associated with our LTPS product development efforts and EUV light source development. In addition to our development of EUV and LTPS technologies, we also continued to focus on next generation ArF and KrF products. Included in our ArF product development efforts for 2007 is the design of our XLR series light sources. As a percentage of total revenues, research and development expenses increased from 13.9% for the three months ended June 30, 2006 to 16.3% for the three months ended June 30, 2007. We expect that our investment in research and development will continue.

Sales and Marketing. Sales and marketing expenses include sales, marketing and customer support staff expenses and other marketing expenses. Sales and marketing expenses decreased 22% from $7.4 million for the three months ended June 30, 2006 to $5.8 million for the three months ended June 30, 2007. The decrease in sales and marketing expenses from period to period primarily reflects a decrease in profit sharing, bonuses and stock-based compensation expenses totaling approximately $858,000. Additionally, remaining sales and marketing expenses were lower period over period as a result of decreased spending in travel and recruiting expenses as well as a decrease in expenses related to facilities and information technology. As a percentage of total revenues, sales and marketing expenses decreased from 5.5% for the three months ended June 30, 2006 compared to 4.7% for the three months ended June 30, 2007. We anticipate that sales and marketing expenses will increase slightly in the third quarter of 2007.

General and Administrative. General and administrative expenses consist primarily of management and administrative personnel costs, professional services, including external audit and consultant fees, and administrative operating costs. General and administrative expenses increased 1% from $9.6 million for the three months ended June 30, 2006 to $9.7 million for the three months ended June 30, 2007 primarily due to an increase in accounting professional service fees and expenses related to facilities and information technology. These increased expenses from period to period were almost completely offset by a $1.0 million decline in profit sharing and bonuses and a $651,000 decline in stock-based compensation expense. As a percentage of total revenues, general and administrative expenses increased from 7.1% for the three months ended June 30, 2006 to 7.9% for the three months ended June 30, 2007. We anticipate that general and administrative expenses will increase slightly in the third quarter of 2007.

Total Other Income - Net. Net other income consists primarily of interest income and expense, foreign currency exchange gains and losses associated with fluctuations in the value of the functional currencies of our foreign subsidiaries against the U.S. dollar. Net other income totaled $4.5 million and $4.3 million for the three months ended June 30, 2006, and 2007, respectively. The decrease in net other income was primarily due to a decrease in the foreign currency exchange gains from period to period which was partially offset by an increase in interest income period over period. During the second quarter of 2007, we utilized a majority of our short-term investment portfolio when we repurchased 4.2 million shares of our outstanding common stock under our $300 million board approved stock repurchase program. Interest income increased from period to period due to better interest rate yields on larger average cash and investment balances during the second quarter of 2007 compared to the same period in 2006. Foreign currency exchange gains totaled $480,000, interest income and other income totaled $5.5 million, and interest and other expense totaled $1.5 million for the three months ended June 30, 2006, compared to a foreign currency exchange gain of $2,000, interest and other income of $5.8 million, and interest and other expense of $1.5 million for the three months ended June 30, 2007.

Income Tax Provision. The tax provision of $11.6 million and $10.9 million for the three months ended June 30, 2006 and 2007, respectively, reflects an annual effective rate of 34.6% for both periods. The annual effective tax rate was consistent from period to period as increases in certain tax benefits were offset by discrete tax expense items. The tax rate for the three months ended June 30, 2007 of 31.1% differs from the annual effective tax rate of 34.6% due to a revision of the annual effective tax rate estimate that was calculated for the three months ended March 31, 2007 and certain tax expense items that were recorded discretely in the second quarter of 2007. The annual effective tax rate for the three months ended June 30, 2007 was approximately equal to the statuatory rate of 35%. The effective tax rate is a function of current tax law and geographic location of pre-tax income.

Six Months Ended June 30, 2006 and 2007

Revenues. The following table summarizes certain measures and the components of our revenue (in thousands, except units sold):

	For the six months ended June 30,	
	2006	**2007**
Light source systems:		
Revenue	$ 140,664	$ 116,908
Units sold	145	100
Average selling price	$ 970	$ 1,169
Consumable and spare parts and service products	$ 121,682	$ 132,282
Other revenue	$ 150	$ 459
Total revenue	$ 262,496	$ 249,649

Product sales decreased 5% from $262.3 million for the six months ended June 30, 2006 to $249.2 million for the six months ended June 30, 2007. This decrease in product sales was due to a decline in light source system sales which was offset by an increase in consumable and spare parts and service product sales for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006. Light source system revenues decreased 17% from $140.7 million for the six months ended June 30, 2006 to $116.9 million for the six months ended June 30, 2007. A total of 145 light source systems were sold in the six months ended June 30, 2006 at an average selling price of $970,000, compared to 100 light source systems sold in the six months ended June 30, 2007 at an average selling price of $1.2 million. On a foreign currency adjusted basis, the average selling price for the six months ended June 30, 2006 was $964,000 compared to $1.2 million for the six months ended June 30, 2007. The increase in the average selling price from period to period reflects the shift in the product mix to higher priced technology buys of our newer advanced ArF products which represented 78% of light source systems revenue for the six months ended June 30, 2007 as compared to only 62% of light source system revenue for the six months ended June 30, 2006. The decrease in quantities of light source systems sold from period to period was due to the slowing and flattening of the semiconductor industry in the first half of 2007 as compared to the 2006 levels.

The continued increase in our installed base of light source systems and the steady utilization of them by our chipmaker customers resulted in an increase in consumables and spare parts and service product revenue of 9% from $121.7 million for the six months ended June 30, 2006 to $132.3 million for the six months ended June 30, 2007. Revenues from funded development contracts were $150,000 and $459,000 for six months ended June 30, 2006 and 2007, respectively. There were no revenues recorded or earned associated with the TCZ joint venture for the six months ended June 30, 2006 or 2007.

Sales to our three lithography tool manufacturing customers, ASML, Canon, and Nikon, amounted to 37%, 6% and 17%, respectively, of total revenue for the six months ended June 30, 2006, and 37%, 5% and 16%, respectively, of total revenue for the six months ended June 30, 2007.

Approximately 84% and 85% of our sales for the six months ended June 30, 2006 and 2007, respectively, were derived from customers outside the U.S. Revenues from Japanese customers, generated primarily by Cymer Japan, accounted for 23% and 20% of total revenues for the six months ended June 30, 2006 and 2007, respectively.

Cost of Product Sales. The cost of product sales decreased 13% from $139.2 million for the six months ended June 30, 2006 to $121.8 million for the six months ended June 30, 2007. This decrease in cost of product sales was primarily due to lower light source system sales and a decrease in warranty costs for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. The gross margin on product sales was 47% for the six months ended June 30, 2006 as compared to 51% for the six months ended June 30, 2007. This higher gross margin from period to period is primarily due to increased factory yield and utilization, reduced product lead and cycle times, reduced warranty costs which resulted from product reliability realization and favorable material reclaim productivity improvements from period to period.

Research and Development. Research and development expenses increased 7% from $36.9 million for the six months ended June 30, 2006 to $39.4 million for the six months ended June 30, 2007 due primarily to costs associated with our LTPS product development efforts and EUV light source development. In addition to our development of EUV and LTPS technologies, we also continued to focus on next generation ArF and KrF products. Included in our ArF product development efforts for 2007 is the design of our XLR series light sources. As a percentage of total revenues, research and development expenses increased from 14.1% for the six months ended June 30, 2006 to 15.8% for the six months ended June 30, 2007.

Sales and Marketing. Sales and marketing expenses decreased 10% from $14.2 million for the six months ended June 30, 2006 to $12.8 million for the six months ended June 30, 2007. The decrease in sales and marketing expenses from period to period primarily reflects decreases in profit sharing, bonuses and stock-based compensation expenses as well as a decrease in expenses related to facilities and information technology totaling $748,000. Sales and marketing expenses for 2006 includes higher employer payroll taxes related to stock option exercises which occurred in the first half of 2006 of approximately $228,000. As a percentage of total revenues, sales and marketing expenses decreased from 5.4% for the six months ended June 30, 2006 compared to 5.1% for the six months ended June 30, 2007.

General and Administrative. General and administrative expenses decreased 1% from $18.8 million for the six months ended June 30, 2006 to $18.5 million for the six months ended June 30, 2007 primarily due to a $1.7 million decline in profit sharing and bonuses and a $1.3 million decline in stock-based compensation expense. These amounts were offset by a

$1.9 million increase in professional fees which were primarily related to the adoption and implementation of FIN 48. In addition, general and administrative expenses for the six months ended June 30, 2007 were higher than the same time period in 2006 due to increased expenses related to facilities and information technology. As a percentage of total revenues, general and administrative expenses increased slightly from 7.2% for the six months ended June 30, 2006 to 7.4% for the six months ended June 30, 2007.

Total Other Income - Net. Net other income totaled $10.7 million and $9.5 million for the six months ended June 30, 2006, and 2007, respectively. The decrease in net other income was primarily due to the receipt of $3.2 million in life insurance proceeds following the death of one of our executive officers in the first half of 2006 and a decrease in foreign currency exchange gains from period to period. These decreases in other income were offset by an increase in interest income period over period. . During the second quarter of 2007, we liquidated a majority of our investment portfolio when we repurchased 4.2 million shares of our outstanding common stock under our $300 million board approved stock repurchase program. Even with this liquidation, interest income increased during the period due to better interest rate yields on larger average cash and investment balances during the first six months of 2007 compared to the same period in 2006. Foreign currency exchange gains totaled $1.1 million, interest income and other income totaled $12.5 million, and interest and other expense totaled $2.9 million for the six months ended June 30, 2006, compared to a foreign currency exchange gain of $429,000, interest and other income of $12.2 million, and interest and other expense of $3.1 million for the six months ended June 30, 2007.

Income Tax Provision The tax provision of $22.1 million and $23.1 million for the six months ended June 30, 2006 and 2007, respectively, reflects an annual effective rate of 34.6% for both periods The annual effective tax rate for the six months ended June 30, 2006 and 2007 was approximately equal to the U.S. statutory rate of 35%. The effective tax rate is a function of current tax law and geographic location of pre-tax income.

LIQUIDITY AND CAPITAL RESOURCES

Historically we have funded our operations primarily from cash generated from operations, the proceeds of the note offerings, bank borrowings, and the proceeds from employee stock option exercises. As of June 30, 2007, we had approximately $330.6 million in cash and cash equivalents, $42.0 million in short-term investments, $24.1 million in long-term investments, and $582.1 million in working capital. Cash and cash equivalents increased $28.5 million in the six month period from December 31, 2006 to June 30, 2007.

In February 2002, we issued $250.0 million in aggregate principal amount in a private placement of notes. These notes are due on February 15, 2009 with interest payable semi-annually on February 15 and August 15 of each year at 3.50% per annum. The notes are convertible into shares of our common stock at a conversion rate of 20 shares per $1,000 principal amount or an effective conversion price of $50.00 per share. We used a portion of the net proceeds from this private placement to redeem the previously issued notes that were then outstanding. The remaining proceeds are being used for our operating, investing and financing activities. With the approval of our board of directors, we have periodically repurchased these notes in the open market. We repurchased $49.2 million and $60.0 million principal amount of these notes in 2004 and 2005, respectively. As of June 30, 2007, there were $140.7 million principal amount of notes outstanding.

Net cash provided by operating activities was approximately $17.3 million and $42.7 million for the six months ended June 30, 2006 and 2007, respectively. Net cash provided by operating activities for the six months ended June 30, 2006 primarily reflects net income for the period and increases in accounts payable and accrued and other liabilities which were almost completely offset by increases in accounts receivable and increases in inventories during the period. The increases in accounts receivable were due to back-end loaded shipments during the quarter and increases in inventory were due to front-end loaded inventory levels to support higher forecasted demand. Net cash used in operating activities for the six months ended June 30, 2007 primarily reflects net income for the period and a decrease in the accounts receivable balances which were offset by increases in inventories and decreases in accounts payable and accrued and other liabilities. The decrease in accounts receivable was primarily due to collection efforts during the period and the increase in inventories was primarily due to reschedules of a number of light source system shipments from the first half of 2007 to the second half of 2007 and an increase in our field inventory to support chipmaker pulse utilization rates and customer service contracts.

Net cash used in investing activities for the six months ended June 30, 2006 was approximately $58.1 million compared to net cash of $142.6 million provided by investing activities for the six months ended June 30, 2007, respectively. Net cash used in investing activities for the six months ended June 30, 2006 was due primarily to the timing of short-term and long-term investments that matured and were reinvested during the period, a $7.0 million payment to acquire the final 19% minority interest in our Cymer Korea subsidiary, a $8.2 million payment to acquire certain patent license rights and the acquisition of $6.5 million of property and equipment. Net cash provided by investing activities during the six months ended June 30, 2007 reflects the timing of short-term and long-term investments that matured and were reinvested during the period, the acquisition of $7.6 million of property and equipment and a $121,000 payment to acquire certain patent license rights. The majority of the proceeds from sold and matured investments during the six months ended June 30, 2007 were used to fund the repurchase of 4,166,300 shares of common stock during the second quarter of 2007 under our $300 million board approved stock repurchase program.

Net cash provided by financing activities was approximately $116.5 million for the six months ended June 30, 2006 compared to net cash of $157.9 million used in financing activities for the six months ended June 30, 2007. Net cash provided by financing activities for the six months ended June 30, 2006 reflects the proceeds received from the exercise of employee stock options totaling $98.7 million and excess tax benefits for the period from stock options exercises totaling $17.8 million. Net cash used in financing activities for the six months ended June 30, 2007 primarily reflects the repurchase of shares of our common stock totaling $171.7 million. This cash used in financing activities was partially offset by proceeds received from the exercise of employee stock options totaling $12.1 million and the excess tax benefits for the period from stock options exercises totaling $1.8 million.

We require substantial working capital to fund our business, particularly to finance inventories, including purchase orders with our vendors, accounts receivable, and for capital expenditures. Our future capital requirements depend on many factors, including our manufacturing activity, the timing and extent of spending to support product development efforts, expansion of sales and marketing and field service and support, competitive labor market compensation requirements, the timing of introductions of new products and enhancements to existing products, and the market acceptance of our products. We believe that cash generated from operations along with the liquidity provided by our existing cash balances and short-term investments will be sufficient to sustain operations and provide for any potential future expansion of our business for at least the next 12 months.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, variable interest, or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we did not engage in trading activities involving non-exchange traded contracts. As a result, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We do not have relationships and transactions with persons and entities that derive benefits from their non-independent relationship with us or our related parties except as disclosed herein.

We have no significant contractual obligations that are not recorded in our consolidated financial statements or fully disclosed in the notes thereto.

SUBSEQUENT EVENT

Total purchases under our $300 million stock repurchase program through August 3, 2007 were $233.7 million or 5,745,000 shares of which $171.7 million or 4,166,300 shares were repurchased through June 30, 2007. As of August 3, 2007 we have $66.3 million of the original authorization available for future purchases of our common stock under this program.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value using generally accepted accounting principles, and expands disclosures related to fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS 157 does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for us on January 1, 2008. We are currently evaluating the impact of this pronouncement on our consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an Amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). We adopted all provisions of SFAS 158 in December 2006 except for the provision which will require us to measure the funded status of our pension plans as of the date of our year-end statement of financial position. This provision will be effective for us for the fiscal year ending December 31, 2008, and we do not expect its adoption to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 ,"The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115" ("SFAS 159"). This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in net income. This statement also establishes presentation and disclosure requirements to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS 159 on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

We conduct business in several international currencies through our global operations. Due to the large volume of our business that we conduct in Japan, the Japanese operation poses our greatest foreign currency risk. We use financial instruments, principally forward contracts, to manage our foreign currency risk exposures. We enter into forward contracts in order to reduce the impact of currency fluctuations related to purchases of our inventories by Cymer Japan in U.S. dollars for resale under firm third-party sales commitments denominated in Japanese yen, as well as other foreign currency exposures including exposures related to intercompany debt. We do not enter into forward contracts for speculative purposes.

As of June 30, 2007, we had outstanding forward contracts to buy U.S. $37.5 million for 5.3 billion yen under foreign currency exchange facilities with contract rates ranging from 114.28 yen to 122.32 yen per U.S. dollar. These contracts expire on various dates through January 2008.

Our forward contracts generally qualify for hedge accounting treatment according to the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". As a result, we defer changes in the fair value for the effective portion of these hedges and record the amount in other comprehensive income and subsequently reclassify the gain or loss to cost of product sales in the same period that the related sale is made to the third party. The fair value of all of our forward contracts and the deferred gain, net of tax, for those that qualify for hedge accounting treatment totaled $1.0 million and $17,000, respectively, as of June 30, 2007.

The fair value of these forward contracts as of June 30, 2007 would have fluctuated by $4.8 million if the foreign currency exchange rate for the Japanese yen to the U.S. dollar on these forward contracts had changed by 10%.

Investment and Debt Risk

We maintain an investment portfolio consisting primarily of government and corporate fixed income securities, certificates of deposit and commercial paper. While it is our general intent to hold such securities until maturity, we will occasionally sell certain securities for cash flow purposes. Therefore, our investments are classified as available-for-sale and are carried on the balance sheet at fair value. A change in market interest rates of 10% would have impacted our net income from these investments by approximately $679,000 for the six months ended June 30, 2007.

In February 2002, we issued $250.0 million principal amount of unsecured fixed rate 3.50% Convertible Subordinated Notes due February 15, 2009. Interest on these notes is payable on February 15 and August 15 of each year. The notes are convertible into shares of our common stock at a conversion rate of 20 shares per $1,000 principal amount subject to adjustment under certain conditions. As of February 21, 2005, we may redeem the notes at certain redemption prices expressed as a percentage of the principal amount. The notes are subordinated to our existing and future senior indebtedness and effectively subordinated to all indebtedness and other liabilities of our subsidiaries. Because the interest rate is fixed, we believe there is no risk of increased interest expense. These notes are recorded at face value on the consolidated balance sheets. In the third quarter of 2004 and the second quarter of 2005, we repurchased, at a discount to par, $49.2 million and $60.0 million principal amount, respectively, of these notes. The principal amount of the notes outstanding and the fair value of such debt based on quoted market prices at June 30, 2007 was $140.7 million.

ITEM 4. Controls and Procedures

Evaluation of disclosure controls and procedures. For the second quarter of 2007, our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2007, and concluded that as of such date, our disclosure controls and procedures were not effective in ensuring that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission.

This conclusion was based solely on our assessment of the company's processes and controls related to our accounting for income taxes described in our annual report on Form 10-K for the year ended December 31, 2006, more specifically those policies and procedures which were not designed to include adequate management review of various income tax calculations, reconciliations and related supporting documentation to ensure that our accounting for income taxes was in accordance with generally accepted accounting principles. These deficiencies resulted in material errors in our consolidated tax provision for our year ended December 31, 2006. Such errors were corrected prior to the issuance of our consolidated financial statements at and for the year ended December 31, 2006. These deficiencies also resulted in a more than remote likelihood that a material misstatement to our consolidated financial statements would not be prevented or detected. As described in Part II, Item 9A of our annual report on Form 10-K for the year ended December 31, 2006, we have developed a plan to remediate this material weakness and will implement all steps in the plan and any others that we deem necessary throughout 2007.

Changes in internal control over financial reporting. There has been no change in our internal control over financial reporting during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting other than the steps taken by us to remediate the material weakness that was disclosed by us in our annual report on Form 10-K for the year ended December 31, 2006, relating to our accounting for income taxes.

As described in Part II, Item 9A of our annual report on Form 10-K for the year ended December 31, 2006, we have identified several steps we will take throughout 2007 with the goal of remediating this material weakness prior to December 31, 2007. Per our original remediation plan and our continued evaluation of the design of our internal controls in the tax area, we have made the following improvements in our internal controls over our accounting for income taxes for the six months ended June 30, 2007:

- Improved the communications between our tax department and our accounting department, and increased the level of involvement of our accounting department in the reviews of income tax reconciliations;
- Redesigned and implemented new review and approval procedures and processes associated with all income tax provision workpapers and the consolidated income tax reconciliation schedules;
- Identified and made significant progress on the implementation of an automated tax provision software tool that will reduce the number of manual spreadsheets that we use to calculate and reconcile all income tax accounts on a quarterly and annual basis;
- Increased our use of outside tax consultants to assist us with all tax calculations and tax provision workpapers until we can identify and hire the appropriate additional tax personnel; and
- Restructured the income tax department, including the roles and responsibilities of our outside tax consultants, to allow for proper review and approval procedures and processes.

There are additional remediation steps that we expect to complete from our original remediation plan and we intend to complete these in the third quarter or early in the fourth quarter of 2007.

Since most of the improvements to our internal controls over the accounting for income taxes were designed early in 2007 and were implemented as part of our first quarter and second quarter of 2007 tax provision calculations, we plan to test all of these internal control changes early in the third quarter of 2007. Further, we will test any additional changes that we make to our internal controls over our accounting for income taxes in the third and fourth quarter of 2007 immediately following their completion and execution to ensure that they are properly designed and working effectively. We will make any changes that management deems necessary to these new internal controls based on the results of this testing.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

The risks described below may not be the only risks we face. Additional risks that we do not currently think are material may also impair our business operations. The risk factors set forth below with an asterisk (*) next to the title contain changes to the description of the risk factors associated with our business as previously disclosed in Item 1A to our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline.

Our revenues and operating results from quarter-to-quarter have varied in the past and our future operating results may continue to fluctuate significantly.

Factors that contribute to fluctuations in our revenues and operating results include:

- demand for semiconductors in general and, in particular, for leading edge devices with smaller circuit geometries;
- cyclicality in the market for semiconductor manufacturing equipment;
- rates at which chipmakers take delivery of photolithography tools from lithography tool manufacturers;
- rates at which lithography tool manufacturer customers take delivery of light source systems from us;
- timing and size of orders from our customers;
- changes in market penetration by our competitor;
- product lead time demands from our customers;
- mix of light source models, consumable and spare parts and service revenues in our total revenues;
- changes in the price and profitability of our products;
- our ability to develop and implement new technologies and introduce new products;
- utilization rates of light sources and sales of consumable and spare parts and services;
- our ability to manage customer satisfaction, product reliability, and direct field service and support effectiveness;
- our ability to manage our manufacturing requirements;
- foreign currency exchange rate fluctuations, principally with respect to the Japanese yen (in which sales by our Japanese subsidiary are denominated);
- worldwide political instability;
- changing global economic conditions, including rising energy prices; and
- intellectual property protection.

We have historically derived a large portion of our quarterly and annual revenues from selling a small number of light source systems. Because we sell a small number of products, the precise time that we recognize revenue from an order may have a significant impact on our total revenue for a particular period. Our customers may cancel or reschedule orders with little or no penalty. Orders expected in one quarter could shift to another period due to changes in the anticipated timing of our customers' purchase decisions or rescheduled delivery dates requested by our customers. Our operating results for a particular quarter or year may be adversely affected if our customers, particularly our three largest customers, cancel or reschedule orders, or if we cannot fill orders in time due to unexpected delays in manufacturing, testing, shipping, and product acceptance.

We manage our expense levels based, in large part, on expected future revenues. As a result, our expenses are relatively fixed for the short term, and if our actual revenue decreases below the level we expect, our operating results will be adversely affected. As a result of these or other factors, we could fail to achieve our expectations as to future revenue, gross profit, operating income, net income, earnings per share, and cash flows. Our failure to meet the performance expectations set and published by external sources could result in a sudden and significant drop in the price of our stock, particularly on a short-term basis, and could negatively affect the value of any investment in our stock.

Our business depends on the semiconductor and the semiconductor capital equipment industries, which are highly volatile and unpredictable.

We derive a substantial portion of our revenues from lithography tool manufacturers who, as original equipment manufacturers ("OEMs"), incorporate our light source systems in photolithography tools that they sell to semiconductor manufacturers, or chipmakers, and from chipmakers who purchase consumables, spare parts, upgrades and service directly from us in support of the light source products. Like us, our OEM customers depend on demand for their products from the chipmakers. The capital equipment and related operating expenditures of chipmakers depend on a number of factors, including the current and anticipated market demand for semiconductors and the many products using semiconductors. That demand is highly volatile and unpredictable.

As a result of the cyclicality of the semiconductor industry, the semiconductor capital equipment industry historically has experienced periodic ups and downs. The cyclical nature of the semiconductor and the semiconductor capital equipment industries affects our ability to accurately predict future revenue and therefore our ability to manage our future expense levels. When cyclical fluctuations result in lower than expected revenue levels, operating results may be adversely affected and cost reduction measures may be necessary in order for us to remain competitive and financially sound. During a down cycle or slowdown, we must be in a position to adjust our cost and expense structure to prevailing market conditions while still being able to maintain the longer term strategies of the company as well as motivate and retain our key employees. During periods of rapid growth, we must be able to increase manufacturing capacity and personnel to meet customer demand. We can provide no assurance that these objectives can be met in a timely manner in response to industry cycles. We are not able to predict with any certainty the duration of any industry cycle or the timing or order of magnitude of any recovery.

Downturns in the semiconductor industry often result in decreases in demand for semiconductor manufacturing equipment, including the photolithography tools that our OEM customers produce. Downturns in the semiconductor industry have generally had severe effects on the demand for semiconductor manufacturing equipment and the associated parts and support services. Fluctuating levels of investment by chipmakers and resulting pricing volatility will continue to materially affect our aggregate bookings, revenues and operating results. Even during periods of reduced revenues we believe we must continue to invest in research and development and to maintain extensive ongoing worldwide customer service and support capabilities to remain competitive. Continued spending in furtherance of these objectives may temporarily harm our financial results. Semiconductor industry downturns and slowdowns are likely to continue to adversely affect our business, financial condition and operating results, and our operating results may fall below the expectations of public market analysts or investors in future quarters. Any failure to meet such expectations could materially adversely affect the price of our common stock.

Our OEM customers try to manage their inventories and production requirements to appropriate levels that reflect their expected sales to chipmakers. Market conditions in the semiconductor industry and our OEM customers' production efficiency can cause them to expand or reduce their orders for new light source systems as they try to manage their inventories and production requirements. We continue to work with our OEM customers to better understand these issues. However, we cannot guarantee that we will be successful in understanding our OEM customers' inventory management and production requirements or that our OEM customers will not build up an excess inventory of light source systems. If our OEM customers retain an excess inventory of light source systems, our revenue could be reduced in future periods as the excess inventory is utilized, which could adversely affect our operating results, financial condition and cash flows. If our OEM customers demand shorter product lead times to improve their inventory and cash positions, our inventory management and cash position may be negatively impacted, which may adversely affect our operating results, financial condition and cash flows.

A significant percentage of our revenue is derived from sales to the three lithography tool manufacturers, and if we are not able to retain these customers, or they reschedule, reduce or cancel orders, or delay or default on payments, our revenues would be reduced and our financial condition and cash flows would suffer. *

Three large companies, ASML, Nikon and Canon dominate the photolithography tool business. Collectively, these three companies accounted for the following percentage of our total revenue during the periods indicated:

	Six months ended June 30,	
	2006	2007
ASML	37%	37%
Nikon	17%	16%
Canon	6%	5%
Total	60%	58%

Collectively, these three companies accounted for the following percentage of our total accounts receivable at the dates indicated:

	December 31, 2006	June 30, 2007
ASML	48%	45%
Nikon	19%	18%
Canon	3%	2%
Total	70%	65%

We expect that sales of our light source products to these three customers will continue to account for a substantial portion of our revenue in the foreseeable future. None of our customers are obligated to purchase a minimum number of our products in the aggregate or during any particular period. We can provide no assurance that any of our customers will continue to purchase our products at past or current levels. Sales to any of these customers may be affected by many factors, some of which are beyond our control. These factors include:

- a change in a customer's competitive position in its industry;
- a customer experiencing lithography tool production problems;
- a decision to purchase light sources from other suppliers;
- changes in economic conditions in the semiconductor or the photolithography tool industries; and
- a decline in a customer's financial condition.

At varying degrees, the loss of any significant business from or production problems for any one of these three customers would harm our business and financial condition.

A substantial percentage of our revenue is derived from the sale of a limited number of primary products.

Our only current product line is excimer light source systems, including KrF and ArF systems, and support, including consumable and spare parts and service support. We expect these light source systems and the related support to continue to account for a substantial majority of our revenues in the near term. Continued market acceptance of our light source system products is, therefore, critical to our future success. The primary market for excimer light sources is in the use of DUV photolithography equipment for manufacturing deep-submicron semiconductor devices using smaller circuit geometries. The demand for our products depends in part on the rate at which chipmakers further adopt excimer light sources as the chosen light source for their photolithography tools.

The rate with which chipmakers adopt excimer light sources may vary for a variety of reasons, including:

- inadequate performance of photoresists used in advanced DUV photolithography, especially new ArF immersion-specific resists;
- potential shortages of specialized materials used in DUV optics;

- productivity of ArF immersion lithography tools, and in the future, productivity of double-patterning ArF lithography tools; and
- consolidation of chipmakers.

We cannot guarantee that these factors can or will be overcome or that the demand for our excimer light source products will not be materially reduced. The demand for our light source products, and therefore our operating results, financial condition and cash flows, could be adversely affected by a number of factors, including:

- a decline in demand for our customers' DUV photolithography tools;
- a failure to achieve continued market acceptance of our products;
- a failure to manage customer satisfaction, product reliability, and direct field service and support effectiveness;
- an improved version of products being offered by a competitor in the market in which we participate;
- technological change that we are unable to address with our products; and
- a failure to release new enhanced versions of our products on a timely basis.

We depend on the introduction of new products for our success, and we are subject to risks associated with rapid technological change. *

Rapid technological changes in semiconductor manufacturing processes subject us to increased pressure to develop technological advances enabling such processes. We believe that our future success depends in part upon our ability to develop, manufacture, timely introduce and support new light source products with improved capabilities and to continue to enhance our existing light source systems and process capabilities. Due to the risks inherent in transitioning to new products, we must forecast accurate demand for new products while managing the transition from older products.

In early 2003, we effected our most significant product introduction in several years with the initial shipment of a light source based on a technology change from a single-discharge-chamber excimer light source to a dual-discharge-chamber design called MOPA. The MOPA design represented a paradigm shift from previously accepted lithography technology by offering chipmakers higher power, tighter bandwidth and lower cost of operation for their current optical lithography applications. More recently, we introduced another significantly advanced dual discharge chamber light source, the XLR 500i, that replaces the conventional power amplifier chamber with a regenerative ring amplifier. This light source provides chipmakers with a step function improvement in performance and significantly lower cost of operation. There are risks inherent in the MOPA and ring technologies, including effective execution of our product development roadmap, continuing adoption of the product by lithography tool manufacturers and chipmakers, manufacturability, cost effectiveness, and product performance in the field of the new products and the development of a comparable product by our competitor.

At this time, chipmakers are continuing to expand their manufacturing capacity at 65 nm, and a growing number of manufacturers of certain types of memory chips are in production at 55 nm and below, and are expected to be in production at 45 nm by the end of 2007. Additionally, other types of chipmakers have a significant level of development underway at 45 nm. These efforts, along with expanding use of ArF immersion lithography in production among certain memory manufacturers, are driving demand for our most advanced ArF light sources. At the same time chipmakers also need tools for the less critical layers on wafers, and there remains strong demand for our KrF light source products for DUV photolithography systems as well. After chipmakers have built their capacity to levels appropriate to meet existing demand, their demand for our light source products will depend, in part, on their sales forecasts and their estimates regarding the duration and magnitude of the current industry cycle and whether their projected manufacturing process yields will enable ongoing investments in whatever capacity seems necessary.

Future technologies such as EUV, nano-imprint lithography, and certain maskless lithography techniques may render our excimer light source products obsolete. We must manage product transitions, as introduction of new products could adversely affect our sales of existing products. If new products are not introduced on time, or have reliability or quality problems, our performance may be impacted by reduced orders, higher manufacturing costs, delays in acceptance of and payment for new products, and additional service and warranty expenses. We may not be able to develop and introduce new products or enhancements to our existing products and processes in a timely or cost effective manner that satisfies customer needs or achieves market acceptance. Failure to develop and introduce these new products and enhancements could materially adversely affect our operating results, financial condition and cash flows.

We expect to face significant competition from current and future competitors. We believe that other companies are developing systems and products that are competitive to ours and are planning to introduce new products to this market, which may affect our ability to sell our new products. Furthermore, new products represent significant investments of our resources and their success, or lack thereof, could have a material effect on our financial results.

Failure to maintain effectively our direct field service and support organization could have a material adverse effect on our business.

We believe it is critical for us to provide quick and responsive service directly to the chipmakers throughout the world that use our light source products in their photolithography systems, and that it is essential to maintain our own personnel or trained third-party resources to provide these services. Accordingly, we have an ongoing effort to develop our direct support system with locations in Europe, Korea, Japan, the People's Republic of China, Singapore, Taiwan and the U.S. This requires us to do the following:

- recruit and train qualified field service personnel;
- identify qualified independent firms; and
- maintain effective and highly trained organizations that can provide service to our customers in various countries.

We may not be able to attract and train qualified personnel to maintain our direct support operations successfully. We may not be able to find and engage qualified third-party resources to supplement and enhance our direct support operations. Further, we may incur significant costs in providing these support services. Failure to implement our direct support operation effectively could harm our operating results, financial condition and cash flows.

We must develop and manufacture enhancements to our existing products and introduce new products in order to continue to grow our business. We may not effectively manage our growth and integrate these new enhancements and products, which could materially harm our business.

To continue to grow our business, our existing light source products and their process capabilities must be enhanced, and we must develop and manufacture new products to serve other semiconductor applications. We cannot guarantee that we will be able to manage our business to grow effectively. Nor can we guarantee that we will be able to accelerate the development of new enhancements to our existing products and create new products. Further, we may not be able to effectively integrate new products and applications into our current operations. Any of these risks could materially harm our business, financial condition and results of operations.

We must effectively manage changes in our business.

In order to respond to the business cycles of the semiconductor industry, in the past few years we have sharply expanded and contracted the scope of our operations and the number of employees in many of our locations and departments. As the semiconductor industry cycle moves between growth and contraction we will need to:

- improve our product reliability through quality control, and our order fulfillment, field service and customer support capabilities;

- closely manage our global operations;
- improve our process and other internal management systems;
- quickly adapt to changing sales and marketing channels;
- effectively manage our inventory levels; and
- attract, train, retain and manage key personnel.

If we fail to effectively manage changes in our business, our operating results, financial condition and cash flows will be adversely affected.

We face competition from one company and may face competition from additional competitors who enter the market.

We currently have one significant competitor that sells light sources for DUV photolithography applications. This competitor, Gigaphoton, is a joint venture between two large companies, Komatsu and Ushio, and is headquartered in Japan. Gigaphoton is aggressively trying to gain larger market penetration in the excimer light source industry. We know that our customers have purchased products from this competitor and that our customers have approved this competitor's light sources for use with their products.

Larger companies with substantially greater resources, such as other manufacturers of industrial light sources for advanced lithography, may attempt to sell competitive products to our customers. Potential competitors may also be attracted to our growing installed base of light sources which represents a steady and significant consumable and spare parts revenue stream for us, and they may attempt to supply consumable and spare parts to that installed base. If any existing or future competitors gain market acceptance, we could lose market share and our growth could slow or decline, which could have a material adverse effect on our operating results, financial condition and cash flows.

We depend on a few key suppliers for purchasing components and subassemblies that are included in our products.

We purchase a limited number of components and subassemblies included in our light source products from a single supplier or a small group of suppliers. For certain optical, control system and pulse power components and subassemblies used in our light source systems, we currently utilize a single supplier. To reduce the risk associated with this single supplier, we carry a significant strategic inventory of these components. Strategic inventories are managed as a percentage of future demand. We have also negotiated to have vendor-managed inventory of critical components to further reduce the risk of a single supplier. In addition, we contract the manufacture of various subassemblies of our products and depend on our contract manufacturers to deliver to our required specifications, schedule, and quality standards. Further, some of our suppliers have specialized in supplying equipment or manufacturing services to semiconductor equipment manufacturers and therefore are susceptible to industry ups and downs and subject to the same risks and uncertainties regarding their ability to respond to changing market conditions. Because many of these suppliers reduce the size of their workforce in an industry downturn and increase it in an upturn, they may not be able to meet our requirements or respond quickly enough as an upturn begins and gains momentum. Due to the nature of our product development requirements, these key suppliers must rapidly advance their own technologies and production capabilities in order to support the introduction schedule of our new products. These suppliers may not be able to provide new modules and subassemblies when they are needed to satisfy our product schedule requirements. If we cannot purchase enough of these materials, components or subassemblies, or if these items do not meet our quality standards, there could be delays or reductions in our product shipments, which would harm our operating results, financial condition and cash flows.

We are dependent on our manufacturing facilities and subcontractors to assemble and test our products.

Operations at our primary manufacturing facility and our subcontractors are subject to disruption for a variety of reasons, including work stoppages, terrorism, fire, earthquake, energy shortages, flooding or other natural disasters. Such disruptions could cause delays in shipments of our products to our customers. We provide no assurance that alternate production capacity would be available if a major disruption were to occur or that, if it were available, it could be obtained on favorable terms. Such disruption could result in cancellation of orders or loss of customers, which would have a material adverse effect on our operating results, financial condition and cash flows.

We depend on key personnel, especially management and technical personnel, who may be difficult to attract and retain.

We are highly dependent on the services of many key employees in various areas, including:

- research and development;
- engineering;
- sales and marketing;
- field service and support;
- manufacturing; and
- management.

In particular, there are a limited number of experts in excimer light source technology, and we require highly skilled hardware and software engineers. Competition for qualified personnel is intense and we cannot guarantee that we will be able to continue to attract and retain qualified personnel as needed. We do not have employment agreements with most of our employees. We believe that our future growth and operating results will depend on:

- the continued services of our research and development, engineering, sales and marketing, field service and support, manufacturing, and management personnel;
- our ability to attract, train and retain highly-skilled key personnel; and
- the ability of our personnel and key employees to continue to expand, train and manage our employee base.

If we are unable to hire, train and retain key personnel as required, our operating results, financial condition and cash flows could be adversely affected.

Economic, political, regulatory and other events in geographic areas where we have significant sales or operations could interfere with our business.

We serve an increasingly global market. A large portion of our total revenues is derived from customers located outside of the U.S. We expect our international sales to continue to account for a very large portion of our total revenues. In order to support our foreign customers, we maintain a manufacturing and field service subsidiary in Korea as well as field service and support subsidiaries in Japan, the Netherlands, the People's Republic of China, Singapore and Taiwan.

We may not be able to manage our operations to address and support our global customers effectively. Further, our investments in these types of activities may not make us competitive in the global market or we may not be able to meet the service, support, and manufacturing levels required by our global customers.

Additionally, we are subject to the risks inherent in doing business globally, including:

- unexpected changes in regulatory requirements;
- fluctuations in exchange rates and currency controls;
- political and economic conditions and instability;
- imposition of trade barriers and restrictions, including changes in tariff and freight rates, foreign customs and duties;
- difficulty in coordinating our management and operations in several different countries;

- difficulties in staffing and managing foreign subsidiary and branch operations;
- limited intellectual property protection in some countries;
- potentially adverse tax consequences in some countries;
- the possibility of accounts receivable collection difficulties;
- in the case of Asia, the risk of business interruption and damage from earthquakes;
- the effect of acts of terrorism and war; and
- the burdens of complying with a variety of foreign laws.

Many of our major customers and many of the chipmakers who use our light source products in their photolithography systems are located in Asia. Economic problems and currency fluctuations affecting these regions in Asia could create a larger risk for us. Further, even though it has not been difficult for us to comply with U.S. export controls, these export rules could change in the future and make it more difficult or impossible for us to export our products to many countries. Any of these vulnerabilities could have a material adverse effect on our business, financial condition and results of operations.

Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights. These types of claims could seriously harm our business or require us to incur significant costs. *

We believe our success and ability to compete depend in large part upon protecting our proprietary technology. We rely on a combination of patent, trade secret, copyright and trademark laws, nondisclosure and other contractual agreements and technical measures to protect our proprietary rights.

We own and have numerous patents pending in the U.S. and various foreign countries covering certain aspects of technology related to light sources and piezo techniques. These patents will expire at various times during the period from January 2008 to September 2025.

Our pending patent applications and any future applications might not be approved. Our patents might not provide us with a competitive advantage and may be challenged by third parties. In addition, third parties' patents might have an adverse effect on our ability to do business. As a result of cost constraints, we did not begin seeking patent protection in Japan and other countries for our inventions that are covered by U.S. patents and patent applications until 1993. As a result we do not have the right to seek foreign patent protection for some of our early inventions. Additionally, laws of some foreign countries in which our products are or may be developed, manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the same extent as do the laws of the U.S. Thus, the likelihood of piracy of our technology and products is greater in these countries. Further, third parties might independently develop similar products, duplicate our products, or design around patents that are granted to us.

Other companies or persons may have filed or may file in the future patent applications that are similar or identical to ours. We may have to participate in appropriate proceedings in the courts or the patent offices to determine the priority of inventions. These proceedings may determine that these third-party patent applications have priority over our patent applications. Loss of priority in these interference proceedings could result in substantial cost to us.

We also rely on the following to protect our confidential information and our other intellectual property:

- trade secret protection;
- employee nondisclosure agreements;
- third-party nondisclosure agreements; and
- other intellectual property protection methods.

However, we may not be successful in protecting our confidential information and intellectual property, particularly our trade secrets, because third parties may:

- independently develop substantially the same proprietary information and techniques;
- gain access to our trade secrets from unrelated third parties and/or without obligation of confidentiality; or
- disclose our technology following expiration of their confidentiality obligation.

The parties to whom we provide research and development services may dispute the ownership of the intellectual property that we develop performing these services.

In the past, funds from research and development arrangements with third parties have been used to pay for a portion of our own research and development expenses. We receive these funds from government-sponsored programs and customers, in connection with our designing and developing specific products. Periodically, funds from lithography tool manufacturers and chipmakers are used to fund a small portion of our research and development expenses. In providing these research and development services to these manufacturers, we try to make contractually clear who owns the intellectual property that results from the research and development services we perform. However, disputes over the ownership or rights to use or market this intellectual property may arise between the funding organizations and us. Any dispute over ownership of the intellectual property we develop could restrict our ability to market our products and have a material adverse effect on our business.

In the future, we may be subject to patent litigation to enforce patents issued to us and defend ourselves against claimed infringement by our competitor or any other third party.

Third parties have notified us in the past, and may notify us in the future, that we are infringing their intellectual property rights. Also, we have notified third parties in the past, and may notify them in the future, that they may be infringing our intellectual property rights.

Specifically, Komatsu notified us in 1996 that we may be infringing some of its Japanese patents. During our subsequent discussions, Komatsu also asserted that our former Japanese manufacturing partner, Seiko, or we may be infringing on some of Komatsu's U.S. patents and a number of its additional Japanese patents. Komatsu has also notified one of our customers, Nikon, of its belief that our light sources infringe several of Komatsu's Japanese and U.S. patents. As a result, we started proceedings in the Japanese Patent Office to oppose certain patents and patent applications of Komatsu. The Japanese Patent Office has dismissed our opposition claims. Thus, litigation may result in connection with Komatsu's Japanese patents or U.S. patents. Also, Komatsu might claim that we infringe other or additional patents. Komatsu notified Seiko that it intends to enforce its rights against Seiko with respect to its Japanese patents if Seiko continued to engage in manufacturing activities for us. In connection with our former manufacturing agreement with Seiko, we agreed to pay Seiko under certain conditions for damages associated with these types of claims. Seiko may not prevail in any litigation against Komatsu, and therefore, we may be required to pay Seiko for such damages.

We have notified our competitor and others of our U.S. patent portfolio. Specifically, we have notified Komatsu that it may be infringing some of our U.S. patents. We have discussed with Komatsu our claims against each other. Komatsu challenged one of our U.S. patents in the United States Patent and Trademark Office ("USPTO") but our patent was subsequently re-issued by the USPTO. Also, Komatsu transferred its lithography light source business to our competitor, Gigaphoton. We also have had discussions with a former competitor, Lambda-Physik (a subsidiary of Coherent, Inc.), regarding allegations by each party against the other for possible patent infringement. Any of these discussions with our competitor or former competitor may not be successful and litigation could result.

In the future, patent litigation may result due to a claim of infringement by our competitor or any other third party or may be necessary to enforce patents issued to us. Any such litigation could result in substantial cost to us and diversion of our effort, which would have an adverse effect on our business, financial condition and operating results. Furthermore, our customers and the end-users of our products might assert other claims for indemnification that arise from infringement claims against them. If these assertions are successful, our business, financial condition and operating results may be materially affected. Instead of litigation, or as a result thereof, we may seek a license from third parties to use their intellectual property. However, we may not be able to obtain a license. Alternatively, we may design around the third party's intellectual property rights or we may challenge these claims in legal proceedings. Any adverse determination in a legal proceeding could result in one or more of the following, any of which could harm our business, financial condition and operating results:

- loss of our proprietary rights;
- exposure to significant liabilities by other third parties;
- requirement that we get a license from third parties on terms that are not favorable to us or not available at all; or
- injunction prohibits us from manufacturing or selling our products.

Any of these actions could be costly and would divert the efforts and attention of our management and technical personnel, which would materially adversely affect our business, financial condition and results of operations.

We may acquire a business or enter a new market that will involve numerous risks. We may not be able to address these risks successfully without substantial expense, delay or other operational and financial challenges.

The risks involved with acquiring a new company, forming a joint venture, or entering a new market include the following:

- diversion of management's attention and resources to integrate the new company or new business opportunity;
- failure to retain key personnel;
- client dissatisfaction or performance problems with the acquired company or new product in a new market;
- amortization of acquired definite-lived intangible assets and deferred compensation;
- costs associated with acquisitions and joint ventures and the integration of acquired operations;
- costs associated with developing, marketing, introducing and supporting a new product in a new market;
- failure to commercialize purchased technologies;
- ability of the acquired companies, joint ventures or new markets to meet their financial projections;
- assumption of unknown liabilities or other unanticipated events or circumstances; and
- compliance with the Sarbanes-Oxley Act of 2002, new SEC regulations, NASDAQ Stock Market rules and new accounting pronouncements as they relate to the new company or joint venture.

Mergers, acquisitions and joint ventures, as well as entry into new markets, are inherently subject to multiple significant risks, and the inability to effectively manage these risks could have a material adverse effect on our business. In July 2005, we formed our TCZ joint venture with Zeiss to produce tools for the manufacture of flat panel displays. This is a new market for both Cymer and Zeiss and may involve numerous risks. Any of these risks could materially harm our business, financial condition and operating results. Further, any business that we acquire, joint venture that we form or new market we may enter may not achieve anticipated revenues or operating results.

Compliance with changing regulations of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations, including accelerated SEC filing timelines and new Proxy rules, new NASDAQ Stock Market rules, and new accounting pronouncements are creating uncertainty and additional complexities for companies such as ours. In particular, the Section 404 internal control evaluation requirements under the Sarbanes-Oxley Act have added and will continue to add complexity and costs to our business and require a significant investment of our time and resources to complete each year. We take these requirements seriously and expect to continue to make every effort to ensure that we receive clean attestations on our internal controls each year from our outside auditors. To maintain high standards of corporate governance and public disclosure, we intend to invest all reasonably necessary resources to comply with all other evolving standards. These investments may result in increased general and administrative expenses and a diversion of management time and attention from strategic revenue generating and cost management activities.

We are dependent on air transport to conduct our business and disruption of domestic and international air transport systems could adversely affect our business.

We depend on regular and reliable air transportation on a worldwide basis for many of our routine business functions. If civil aviation in the U.S. or abroad is disrupted by terrorist activities or security responses to the threat of terrorism or for any other reason, our business could be adversely affected in the following ways:

- supplies of raw materials and components for the manufacture of our products or our customers' products may be disrupted;
- we may not be able to deliver our products to our customers in a timely manner;
- we may not be able to provide timely service of or support for installed light sources for chipmakers; and
- our sales and marketing efforts may be disrupted.

We are exposed to risks related to the fluctuations in the currency exchange rates for all foreign currencies in which we do business, but particularly for the Japanese yen.

When we sell products to our Japanese subsidiary, the sale is denominated in U.S. dollars. When our Japanese subsidiary sells our products directly to customers in Japan, the sale is denominated in Japanese yen. Thus, our results of operations may fluctuate based on the changing value of the Japanese yen to the U.S. dollar. We manage the exposure of our Japanese subsidiary to these fluctuations through forward contracts to hedge the subsidiary's purchase commitments. We will continue to monitor our exposure to these currency fluctuations, and, when appropriate, use hedging transactions to minimize the effect of these currency fluctuations. However, exchange rate fluctuations may still have a material adverse effect on our operating results. In the future, we may need to sell a more significant portion of our products in foreign currencies other than the Japanese yen and the management of more currency fluctuations will be more difficult and expose us to greater risks in this area.

We are subject to many standards and regulations of foreign governments and, even though we intend to comply, we may not always be in compliance with these rules, or we may be unable to design or redesign our products to comply with these rules.

Many foreign government standards and regulations apply to our products. These standards and regulations are always being amended. Although we intend to meet all foreign standards and regulations, our products may not comply with these foreign government standards and regulations. Further, it might not be cost effective for us to redesign our products to comply with these foreign government standards and regulations. Our inability to design products to comply with foreign standards therefore could have a material adverse effect on our business.

Chipmakers' prolonged use of our products in high volume production may not produce the results they desire and, as a result, our reputation and that of our customers who supply photolithography tools to the chipmakers could be damaged in the semiconductor industry.

Over time, our light source products may not meet chipmakers' production specifications or operating cost requirements after the light source has been used for a long period in high volume production. If any chipmaker cannot successfully achieve or sustain their volume production using our light sources, our reputation could be damaged with chipmakers and lithography tool manufacturers. This would harm our business.

Our operations are subject to environmental and other government regulations that may expose us to liabilities for noncompliance.

We are subject to federal, state and local regulations, such as regulations related to the environment, land use, public utility utilization and the fire code, in connection with the storage, handling, discharge and disposal of substances that we use in our manufacturing process and on our facilities. We believe that our activities comply with current government regulations that are applicable to our operations and current facilities. We may be required to purchase additional capital equipment or other requirements for our processes to comply with these government regulations in the future if they change. Further, these government regulations may restrict us from expanding our operations. Adopting measures to comply with changes in the government regulations, our failure to comply with environmental and land use regulations, or restrictions on our ability to discharge hazardous substances, could subject us to future liability or cause our manufacturing operations to be reduced or stopped.

Our products are subject to potential product liability claims if personal injury or death results from their use.

We are exposed to significant risks for product liability claims if personal injury or death results from the use of our products. We may experience material product liability losses in the future. We maintain insurance against product liability claims. However, our insurance coverage may not continue to be available on terms that we accept. This insurance coverage also may not adequately cover liabilities that we incur. Further, if our products are defective, we may be required to recall or redesign these products. A successful claim against us that exceeds our insurance coverage level, or any claim or product recall that results in adverse publicity against us, could have a material adverse effect on our business, financial condition and results of operations.

Trademark infringement claims against our registered and unregistered trademarks would be expensive and we may have to stop using such trademarks and pay damages.

We registered the trademarks "CYMER" and "INSIST ON CYMER" and others in the U.S. and in some other countries. We are also trying to register additional trademarks in the U.S. and in other countries. We use these trademarks and many other marks in our advertisements and other business materials, which are distributed throughout the world. We may be subject to trademark infringement actions for using these marks and other marks on a worldwide basis which would be costly to defend. If a trademark infringement action were successful, we would have to stop using one or more of the marks and possibly pay damages.

The price of our common stock has fluctuated and may continue to fluctuate widely.

The price of our common stock has fluctuated in the past. The market price of our common stock will continue to be subject to significant fluctuations in the future in response to a variety of factors, including the risk factors contained in this report.

Various factors may significantly affect the market price of our common stock, including:

- the cyclical nature of the semiconductor industry;
- actual or anticipated fluctuations in our operating results, including our net income, product gross margins and free cash flow;
- conditions and trends in the light source device and other technology industries;
- announcements of innovations in technology;

- new products offered by us or our competitor;
- developments of patents or proprietary rights;
- changes in financial estimates by securities analysts;
- general worldwide political, economic, and market conditions;
- U.S. political, economic, and market conditions; and
- failure to properly manage any single or combination of risk factors listed in this section.

In addition, the stock market has experienced extreme price and volume fluctuations that have particularly affected the market price for many high technology companies. Such fluctuations have in some cases been unrelated to the operating performance of these companies. Severe price fluctuations in a company's stock have frequently been followed by securities litigation. Any such litigation can result in substantial costs and a diversion of management's attention and resources and therefore could have a material adverse effect on our business, financial condition and results of operations.

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

(a) Not applicable

(b) Not applicable

(c) On April 24, 2007, we announced that our board of directors authorized us to repurchase up to $300 million of our common stock. The purchases have been made from time to time in the open market or in privately negotiated transactions. The program does not have a fixed expiration date and may be discontinued at any time.

The following table provides information with respect to the shares of common stock repurchased by us during the three months ended June 30, 2007:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
April 1, 2007 to April 30, 2007	477,700	$ 40.59	477,700	$ 280.6 Million
May 1, 2007 to May 31, 2007	3,398,900	$ 41.40	3,398,900	$ 139.8 Million
June 1, 2007 to June 30, 2007	289,700	$ 39.81	289,700	$ 128.3 Million
Total	4,166,300	$ 41.20	4,166,300	

ITEM 3. Defaults Upon Senior Securities

None.

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

Cymer held its Annual Meeting of Stockholders on May 17, 2007. Out of 37,349,393 shares of common stock entitled to vote at such meeting, there were present in person or by proxy 35,300,281 shares. At the Annual Meeting, the stockholders of Cymer approved the following matters:

Proposal 1. The election of the following eight directors to serve for one year. The votes for the nominated directors were as follows:

Director's Name	Votes For	Votes Withheld
Charles J. Abbe	32,372,828	2,927,453
Robert P. Akins	34,190,837	1,109,444
Edward H. Braun	35,115,694	184,587
Michael R. Gaulke	32,348,698	2,951,583
William G. Oldham	34,995,242	305,039
Peter J. Simone	31,533,677	3,766,604
Young K. Sohn	35,115,109	185,172
Jon D. Tompkins	35,113,200	187,081

Proposal 2. An amendment to our 2005 Equity Incentive Plan to increase the aggregate number of shares authorized for issuance under the Plan by 1,000,000 shares and to expand the awards available for grant under the Incentive Plan to include cash awards that qualify as "performance-based compensation". 26,973,676 votes were cast for approval, 5,049,087 votes were cast against, 41,426 votes were abstained and there were 3,236,092 broker non-votes.

Proposal 3. Ratification of the appointment of KPMG LLP as our independent auditors for the year ending December 31, 2007. 34,934,580 votes were cast for approval, 360,213 votes were cast against, 5,488 votes were abstained and there were no broker non-votes.

ITEM 5. Other Information

(a) None.

(b) There were no material changes to the procedures by which security holders may recommend nominees to our board of directors.

ITEM 6. Exhibits

10.1	Summary description of Cymer, Inc. 2005 Equity Incentive Plan, as amended (incorporated herein by reference to Exhibit 99.1 to Cymer's Current Report on Form 8-K filed on May 18, 2007).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

CYMER, INC.

Date: August 7, 2007

By: /s/ Nancy J. Baker

Nancy J. Baker
Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Robert P. Akins, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2007 of Cymer, Inc.:

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.

Date: August 7, 2007

/s/ Robert P. Akins
Robert P. Akins

Chairman, Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Nancy J. Baker, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2007 of Cymer, Inc.:

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.

Date: August 7, 2007

/s/ Nancy J. Baker
Nancy J. Baker

Sr. Vice President, Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350, as adopted), Robert P. Akins, Chief Executive Officer of Cymer, Inc., a Nevada corporation (the "Registrant"), hereby certifies that, to the best of his knowledge:

1. The Registrant's quarterly report on Form 10-Q for the period ended June 30, 2007, to which this certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) of the Exchange Act; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

In Witness Whereof, the undersigned has set his hand hereto as of the 7th day of August, 2007.

/s/ Robert P. Akins
Robert P. Akins, Chief Executive Officer

This certification accompanies the quarterly report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Cymer, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the quarterly report on Form 10-Q to which it relates), irrespective of any general incorporation language contained in such filing.

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350, as adopted), Nancy J. Baker, Chief Financial Officer of Cymer, Inc., a Nevada corporation (the "Registrant"), hereby certifies that, to the best of her knowledge:

1. The Registrant's quarterly report on Form 10-Q for the period ended June 30, 2007, to which this certification is attached as Exhibit 32.2 (the "Report"), fully complies with the requirements of Section 13(a) of the Exchange Act; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

In Witness Whereof, the undersigned has set her hand hereto as of the 7th day of August, 2007.

/s/Nancy J. Baker
Nancy J. Baker, Chief Financial Officer

This certification accompanies the quarterly report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Cymer, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the quarterly report on Form 10-Q to which it relates), irrespective of any general incorporation language contained in such filing.