ASML HOLDING NV
Form 20-F
February 15, 2011

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United States
Securities and Exchange Commission
**Washington, D.C. 20549**

Form 20-F
**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**for the fiscal year ended December 31, 2010**

**Commission file number 025566**

**ASML HOLDING N.V.**
(Exact Name of Registrant as Specified in Its Charter)

**THE NETHERLANDS**
(Jurisdiction of Incorporation or Organization)

**DE RUN 6501**
**5504 DR VELDHOVEN**
**THE NETHERLANDS**
(Address of Principal Executive Offices)
**Craig DeYoung**
**Telephone: +1 480 383 4005**
**Facsimile: +1 480 383 3978**
**E-mail: craig.deyoung@asml.com**
**8555 South River Parkway,**
**Tempe, AZ 85284, USA**
(Name, Telephone, E-mail, and/or Facsimile number and Address of Company Contact Person)
Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Ordinary Shares (nominal value EUR 0.09 per share) | The NASDAQ Stock Market LLC |

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)
Indicate the number of outstanding shares of each of the issuer s classes of
capital or common stock as of the close of the period covered by the annual report.
**436,592,972 Ordinary Shares**
**(nominal value EUR 0.09 per share)**
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes (ü) No ( )
If this report is an annual or transition report, indicate by check mark if the registrant
is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ( ) No (ü)

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 (ü) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes (ü) 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 (ü) Accelerated filer ( ) Non-accelerated filer ( )

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP (ü) International Financial Reporting Standards as issued by the International Accounting Standards Board ( ) Other ( )

If Other has been checked in response to the previous question, indicate by checkmark which financial statement item the registrant has elected to follow.

Item 17 ( ) Item 18 ( )

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ( ) No (ü)

Name and address of person authorized to receive notices and communications from the Securities and Exchange Commission:

**Richard A. Ely**
**Skadden, Arps, Slate, Meagher & Flom (UK) LLP**
**40 Bank Street, Canary Wharf**
**London E14 5DS England**

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Part I

**Special Note Regarding Forward-Looking Statements**

In addition to historical information, this annual report on Form 20-F contains statements relating to our future business and/or results. These statements include certain projections and business trends that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. You can generally identify these statements by the use of words like may , will , could , should , project , believe , anticipate , expect , plan forecast , potential , intend , continue and variations of these words or comparable words.

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results as a result of certain risks and uncertainties. These risks and uncertainties include, without limitation, those described under Item 3.D. Risk Factors and those detailed from time to time in our other filings with the United States Securities and Exchange Commission (the Commission or the SEC ). These forward-looking statements are made only as of the date of this annual report on Form 20-F. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

**Item 1 Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2 Offer Statistics and Expected Timetable**

Not applicable.

**Item 3 Key Information**

**A. Selected Financial Data**

The following selected consolidated financial data should be read in conjunction with Item 5 Operating and Financial Review and Prospects and Item 18 Financial Statements .

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**Five-Year Financial Summary**

| Year ended December 31 | 2006[1] | 2007[1] | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| (in thousands, except per share data) | EUR | EUR | EUR | EUR | **EUR** |
| **Consolidated statements of operations data** | | | | | |
| Net sales | 3,581,776 | 3,768,185 | 2,953,678 | 1,596,063 | **4,507,938** |
| Cost of sales | 2,127,797 | 2,218,526 | 1,938,164 | 1,137,671 | **2,552,768** |
| **Gross profit on sales** | 1,453,979 | 1,549,659 | 1,015,514 | 458,392 | **1,955,170** |
| Research and development costs | 386,567 | 486,141 | 516,128 | 466,761 | **523,426** |
| Amortization of in-process research and development costs | | 23,148 | | | |
| Selling, general and administrative costs[2] | 202,330 | 223,386 | 210,172 | 154,756 | **181,045** |
| **Income (loss) from operations** | 865,082 | 816,984 | 289,214 | (163,125) | **1,250,699** |
| Interest income (expense), net[2] | (3,323) | 31,169 | 20,430 | (8,425) | **(8,176)** |
| **Income (loss) from operations before income taxes** | 861,759 | 848,153 | 309,644 | (171,550) | **1,242,523** |
| (Provision for) benefit from income taxes | (243,211) | (177,152) | 12,726 | 20,625 | **(220,703)** |
| **Net income (loss)** | 618,548 | 671,001 | 322,370 | (150,925) | **1,021,820** |
| **Earnings per share data** | | | | | |
| Basic net income (loss) per ordinary share | 1.30 | 1.45 | 0.75 | (0.35) | **2.35** |
| Diluted net income (loss) per ordinary share[3] | 1.26 | 1.41 | 0.74 | (0.35) | **2.33** |
| Number of ordinary shares used in computing per share amounts (in thousands) | | | | | |
| Basic | 474,860 | 462,406 | 431,620 | 432,615 | **435,146** |
| Diluted[3] | 503,983 | 485,643 | 434,205 | 432,615 | **438,974** |

1 As of January 1, 2008, ASML accounts for award credits offered to its customers as part of a volume purchase agreement using the deferred revenue model. Until December 31, 2007, ASML accounted for award credits using the cost accrual method. The comparative figures for 2006 and 2007 have been adjusted to reflect this change in accounting policy.

2 As of January 1, 2010, ASML adopted Accounting Standards Codification ( ASC ) 810 Amendments to FIN 46(R) which resulted in the consolidation of the Variable Interest Entity ( VIE ) that owns ASML s headquarters in Veldhoven, the Netherlands. The comparative figures for 2006 through 2009 have been adjusted to reflect this change in accounting policy. See Note 1 and Note 11 to our consolidated financial statements.

3 The calculation of diluted net income (loss) per ordinary share assumes the exercise of options issued under ASML stock option plans, the issue of shares under ASML share plans and the conversion of ASML s outstanding Convertible Subordinated Notes for periods in which exercises, issues or conversions would have a dilutive effect. The calculation of diluted net income (loss) per ordinary share does not assume exercise, issue of shares or conversion of such options, shares or conversion of Convertible Subordinated Notes for periods in which such exercises, issue of shares or conversions would be anti-dilutive.

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| As of December 31 | 2006[1] | 2007[1] | 2008 | 2009 | **2010** |
|---|---|---|---|---|---|
| (in thousands, unless otherwise indicated) | EUR | EUR | EUR | EUR | **EUR** |
| **Consolidated balance sheets data** | | | | | |
| Cash and cash equivalents | 1,655,857 | 1,271,636 | 1,109,184 | 1,037,074 | **1,949,834** |
| Working capital[4] | 2,236,173 | 1,997,988 | 1,964,906 | 1,704,714 | **2,788,649** |
| Total assets[2] | 3,997,240 | 4,113,444 | 3,977,478 | 3,764,151 | **6,180,358** |
| Long-term debt[2] | 424,785 | 642,332 | 685,134 | 699,756 | **710,060** |
| Total shareholders equity | 2,148,003 | 1,891,004 | 1,988,769 | 1,774,768 | **2,773,908** |
| Capital stock | 10,051 | 39,206 | 38,887 | 39,028 | **39,293** |
| **Consolidated statements of cash flows data** | | | | | |
| Depreciation and amortization[2] | 90,128 | 129,380 | 121,423 | 141,631 | **151,444** |
| Impairment | 17,354 | 9,022 | 25,109 | 15,896 | **8,563** |
| Net cash provided by total operating activities[2] | 495,316 | 704,047 | 282,979 | 99,194 | **940,048** |
| Purchases of property, plant and equipment | (70,619) | (179,152) | (259,770) | (104,959) | **(128,728)** |
| Acquisition of subsidiary (net of cash acquired) | | (188,011) | | | |
| Net cash used in total investing activities | (70,629) | (362,152) | (259,805) | (98,082) | **(124,903)** |
| Capital repayment[5] | | (1,011,857) | | | |
| Purchase of shares in conjunction with conversion rights of bondholders and share-based payments | (678,385) | (359,856) | (87,605) | | |
| Dividend paid | | | (107,841) | (86,486) | **(86,960)** |
| Deposits from customers | | | | | **150,000** |
| Net proceeds from issuance of bond | | 593,755 | | | |
| Net cash provided by (used in) total financing activities[2] | (660,660) | (718,399) | (186,471) | (74,874) | **92,702** |
| Net increase (decrease) in cash and cash equivalents | (248,752) | (384,221) | (162,452) | (72,110) | **912,760** |
| **Ratios and other data** | | | | | |
| Gross profit as a percentage of net sales | 40.6 | 41.1 | 34.4 | 28.7 | **43.4** |
| Income (loss) from operations as a percentage of net sales[2] | 24.2 | 21.7 | 9.8 | (10.2) | **27.7** |
| Net income (loss) as a percentage of net sales | 17.3 | 17.8 | 10.9 | (9.5) | **22.7** |
| Shareholders equity as a percentage of total assets[2] | 53.7 | 46.0 | 50.0 | 47.1 | **44.9** |

| | | | | | |
|---|---|---|---|---|---|
| Income taxes as a percentage of income (loss) before income taxes | 28.2 | 20.9 | (4.1) | 12.0 | **17.8** |
| Sales of systems (in units) | 266 | 260 | 151 | 70 | **197** |
| Average selling price of system sales (in millions) | 12.1 | 12.9 | 16.7 | 16.8 | **19.8** |
| Value of systems backlog (in millions)[6,7] | 2,248.6 | 1,765.5 | 857.3 | 2,113.7 | **3,855.7** |
| Systems backlog (in units)[6,7] | 163 | 89 | 41 | 69 | **157** |
| Average selling price of systems backlog (in millions)[6,7] | 13.8 | 19.8 | 20.9 | 30.6 | **24.6** |
| Value of booked systems (in millions)[6,7] | 4,276.4 | 3,154.3 | 1,730.9 | 2,535.4 | **6,212.7** |
| Net bookings for the year (in units)[6,7] | 334 | 186 | 103 | 98 | **285** |
| Average selling price of booked systems (in millions)[6,7] | 12.8 | 17.0 | 16.8 | 25.9 | **21.8** |
| Number of payroll employees in FTEs | 5,594 | 6,582 | 6,930 | 6,548 | **7,184** |
| Number of temporary employees in FTEs | 1,486 | 1,725 | 1,329 | 1,137 | **2,061** |
| Increase (decrease) net sales in percentage | 41.6 | 5.2 | (21.6) | (46.0) | **182.4** |
| Number of ordinary shares outstanding (in thousands) | 477,099 | 435,626[5] | 432,074 | 433,639 | **436,593** |
| ASML share price in euro[8] | 18.84 | 21.66 | 12.75 | 24.00 | **28.90** |
| Volatility 260 days in percentage of ASML shares[9] | 28.08 | 27.52 | 51.14 | 38.45 | **30.25** |
| Dividend per ordinary share in euro | | 0.25 | 0.20 | 0.20 | **0.40**[10] |
| Dividend per ordinary share in U.S. dollar | | 0.39 | 0.26 | 0.27 | **0.54**[10] |

4 Working capital is calculated as the difference between total current assets, including cash and cash equivalents, and total current liabilities.

5 In 2007, as part of a capital repayment program, EUR 1,011.9 million of share capital was repaid to our shareholders and the number of outstanding ordinary shares was reduced by 11.1 percent (pursuant to a synthetic share buyback).

6 Our systems backlog and net bookings include only orders for which written authorizations have been accepted and system shipment and revenue recognition dates within the following 12 months have been assigned.

7 In the past, ASML valued net bookings and systems backlog at net system sales value, which does not reflect the full order value because it excludes the value of options and services related to the systems. As of 2010, in order to more adequately reflect the business circumstances, ASML values net bookings and systems backlog at full order value (i.e. including options and services). The comparative figures for 2006 through 2009 have been adjusted in order to reflect this change.

8 Closing price of ASML s ordinary shares listed on the Official Segment of the stock market of Euronext Amsterdam (source: Bloomberg Finance LP).

9 Volatility represents the variability in our share price on the Official Segment of the stock market of Euronext Amsterdam as measured over the 260 business days of each year presented (source: Bloomberg Finance LP).

10 Subject to approval of the Annual General Meeting of Shareholders to be held on April 20, 2011. The exchange rate used to convert the proposed dividend per ordinary share is the exchange rate at the latest practicable date

before filing.

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### Exchange Rate Information

We publish our consolidated financial statements in euros. In this Annual Report, references to , euro or EUR are to euros, and references to $ , U.S. dollar , USD or US$ are to United States dollars.

A portion of our net sales and expenses is, and historically has been, denominated in currencies other than the euro. For a discussion of the impact of exchange rate fluctuations on our financial condition and results of operations, see Item 5.A. Operating Results, Foreign Exchange Management , Note 1 and Note 3 to our consolidated financial statements.

The following are the Noon Buying Rates certified by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate ), expressed in U.S. dollars per euro.

| **Calendar Year** | **2006** | **2007** | **2008** | **2009** | **2010** | **February 2011 (through February 7, 2011)** |
|---|---|---|---|---|---|---|
| Period End | 1.32 | 1.46 | 1.39 | 1.43 | 1.33 | **1.36** |
| Average[1] | 1.26 | 1.37 | 1.47 | 1.39 | 1.33 | **1.34** |
| High | 1.33 | 1.49 | 1.60 | 1.51 | 1.45 | **1.38** |
| Low | 1.19 | 1.29 | 1.24 | 1.25 | 1.20 | **1.29** |

1 The average of the Noon Buying Rates on the last business day of each month during the period presented.

| **Months of** | **August 2010** | **September 2010** | **October 2010** | **November 2010** | **December 2010** | **January 2011** | **February 2011 (through February 7, 2011)** |
|---|---|---|---|---|---|---|---|
| High | 1.3282 | 1.3638 | 1.4066 | 1.4224 | 1.3395 | **1.3715** | **1.3793** |
| Low | 1.2652 | 1.2708 | 1.3688 | 1.3036 | 1.3089 | **1.2944** | **1.3584** |

### B. Capitalization and Indebtedness

Not applicable.

### C. Reasons for the Offer and Use of Proceeds

Not applicable.

**D. Risk Factors**

In conducting our business, we face many risks that may interfere with our business objectives. Some of these risks relate to our operational processes, while others relate to our business environment. It is important to understand the nature of these risks and the impact they may have on our business, financial condition and results of operations. Some of the more relevant risks are described below. These risks are not the only ones that ASML faces. Some risks may not yet be known to ASML and certain risks that ASML does not currently believe to be material could become material in the future.

**Risks Related to the Semiconductor Industry**

***The Semiconductor Industry is Highly Cyclical and We May Be Adversely Affected by Any Downturn***

As a supplier to the global semiconductor industry, we are subject to the industry s business cycles, the timing, duration and volatility of which are difficult to predict. The semiconductor industry has historically been cyclical. Sales of our lithography systems depend in large part upon the level of capital expenditures by semiconductor manufacturers. These capital expenditures depend upon a range of competitive and market factors, including:

- the current and anticipated market demand for semiconductors and for products utilizing semiconductors;
- semiconductor prices;
- semiconductor production costs;
- changes in semiconductor inventory levels;
- general economic conditions; and
- access to capital.

Reductions or delays in capital equipment purchases by our customers could have a material adverse effect on our business, financial condition and results of operations.

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In an industry downturn, our ability to maintain profitability will depend substantially on whether we are able to lower our costs and break-even level, which is the level of sales that we must reach in a year to achieve net income. If sales decrease significantly as a result of an industry downturn and we are unable to adjust our costs over the same period, our net income may decline significantly or we may suffer losses. As we need to keep certain levels of inventory on hand to meet anticipated product demand, we may also incur increased costs related to inventory obsolescence in an industry downturn. In addition, industry downturns generally result in overcapacity, resulting in downward pressure on prices and impairment of machinery and equipment, which in the past has had, and in the future could have, a material adverse effect on our business, financial condition and results of operations.

The financial crisis affecting the banking system and global financial markets was in many respects unprecedented in the history of our Company. Remaining concerns over the instability of the financial markets and the global economy could result in a number of follow-on effects on our business, including: declining business and consumer confidence resulting in reduced, delayed or shorter-term capital expenditures for our products; insolvency of key suppliers resulting in product delays; the inability of customers to obtain credit to finance purchases of our products, delayed payments from our customers and/or customer insolvencies; and other adverse effects that we cannot currently anticipate. If global economic and market conditions deteriorate, we are likely to experience material adverse impacts on our business, financial condition and results of operations.

Conversely, in anticipation of periods of increasing demand for semiconductor manufacturing equipment, we must maintain sufficient manufacturing capacity and inventory, and we must attract, hire, integrate and retain a sufficient number of qualified employees to meet customer demand. Our ability to predict the timing and magnitude of industry fluctuations is limited and our products require significant lead-time to complete. Accordingly, we may not be able to effectively increase our production capacity to respond to an increase in customer demand in an industry upturn resulting in lost revenues, damage to customer relationships and we may lose market share.

***Our Business Will Suffer If We Do Not Respond Rapidly to Commercial and Technological Changes in the Semiconductor Industry***

The semiconductor manufacturing industry is subject to:

- rapid change towards more complex technologies;
- frequent new product introductions and enhancements;
- evolving industry standards;
- changes in customer requirements; and
- continued shortening of product life cycles.

Our products could become obsolete sooner than anticipated because of a faster than anticipated change in one or more of the technologies related to our products or in market demand for products based on a particular technology. Our success in developing new products and in enhancing our existing products depends on a variety of factors, including the successful management of our research and development ( R&D ) programs and timely completion of product development and design relative to competitors. If we do not develop and introduce new and enhanced systems at competitive prices and on a timely basis, our customers will not integrate our systems into the planning and design of new production facilities and upgrades of existing facilities, which would have a material adverse effect on our business, financial condition and results of operations.

In addition, we are investing considerable financial and other resources to develop and introduce new products and product enhancements, such as Extreme Ultraviolet lithography ( EUV ), that our customers may not fully adopt. If our customers do not adopt these new technologies, products or product enhancements that we develop due to a preference for more established or alternative new technologies and products or for other reasons, we would not recoup any return on our investments in these technologies or products, which would result in the recording of impairment charges on these investments and could have a material adverse effect on our business, financial condition and results of operations.

The success of EUV will be particularly dependent on light source (laser) availability and continuing technical advances as well as infrastructure developments in masks and resists, without which the tools cannot achieve the productivity and yield that are required to justify their capability economically.

***We Face Intense Competition***

The semiconductor equipment industry is highly competitive. The principal elements of competition in our market segments are:

- the technical performance characteristics of a lithography system;
- the value of ownership of that system based on its purchase price, maintenance costs, productivity, and customer service and support costs;
- a strengthening of the euro particularly against the Japanese yen which results in lower prices and margins;
- the strength and breadth of our portfolio of patents and other intellectual property rights; and
- our customers desire to obtain lithography equipment from more than one supplier.

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Our competitiveness increasingly depends upon our ability to develop new and enhanced semiconductor equipment that is competitively priced and introduced on a timely basis, as well as our ability to protect and defend our intellectual property rights. See Item 4.B. Business Overview, Intellectual Property and Note 17 to our consolidated financial statements.

ASML s primary competitors are Nikon Corporation ( Nikon ) and Canon Kabushiki Kaisha ( Canon ). Both Nikon and Canon have substantial financial resources and broad patent portfolios. Each continues to introduce new products with improved price and performance characteristics that compete directly with our products, which may cause a decline in our sales or a loss of market acceptance for our lithography systems. In addition, adverse market conditions, industry overcapacity or a decrease in the value of the Japanese yen in relation to the euro or the U.S. dollar could further intensify price-based competition in those regions that account for the majority of our sales, resulting in lower prices and margins and a material adverse effect on our business, financial condition and results of operations. In addition, to competitors in lithography, ASML may face competition with respect to alternative technologies for the non-critical layers and from alternative technologies for all layers. In the event the delivery of new technology is delayed, ASML s customers may turn to alternative technology equipment and/or their own installed base as a substitute for purchasing ASML s products.

**Risks Related to ASML**

***The Number of Systems We Can Produce Is Limited by Our Dependence on a Limited Number of Suppliers of Key Components***

We rely on outside vendors for the components and subassemblies used in our systems, each of which is obtained from a single supplier or a limited number of suppliers. Our reliance on a limited group of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and the risk of untimely delivery of these components and subassemblies.

The number of lithography systems we are able to produce is limited by the production capacity of Carl Zeiss SMT AG ( Zeiss ). Zeiss is our single supplier of lenses and other critical optical components. If Zeiss were unable to maintain and increase production levels or if we are unable to maintain our business relationship with Zeiss in the future we could be unable to fulfill orders, which could damage relationships with current and prospective customers and have a material adverse effect on our business, financial condition and results of operations. If Zeiss were to terminate its relationship with us or if Zeiss were unable to maintain production of lenses over a prolonged period, we would effectively cease to be able to conduct our business. See Item 4.B. Business Overview, Manufacturing, Logistics and Suppliers .

In addition to Zeiss current position as our single supplier of lenses, the excimer laser illumination systems that provide the ultraviolet light source, referred to as deep UV , used in our high resolution steppers and Step & Scan systems, and the extreme ultraviolet light source, referred to as EUV , used in our second-generation EUV systems, are available from only a very limited number of suppliers.

Although the timeliness, yield and quality of deliveries to date from our other subcontractors generally have been satisfactory, manufacturing some of these components and subassemblies that we use in our manufacturing processes is an extremely complex process and delays caused by suppliers may occur in the future. A prolonged inability to obtain adequate deliveries of components or subassemblies, or any other circumstance that requires us to seek alternative sources of supply, could significantly hinder our ability to deliver our products in a timely manner, which could damage relationships with current and prospective customers and have a material adverse effect on our business, financial condition and results of operations.

***A High Percentage of Net Sales Is Derived from a Few Customers***

Historically, we have sold a substantial number of lithography systems to a limited number of customers. We expect customer concentration to increase because of continuing consolidation in the semiconductor manufacturing industry. Consequently, while the identity of our largest customers may vary from year to year, we expect sales to remain concentrated among relatively few customers in any particular year. In 2010, sales to our largest customer accounted for EUR 1,270.8 million, or 28.2 percent of net sales, compared with EUR 348.8 million, or 21.9 percent of net sales, in 2009. The loss of any significant customer or any significant reduction in orders by a significant customer may have a material adverse effect on our business, financial condition and results of operations.

Additionally, as a result of our limited number of customers, credit risk on our receivables is concentrated. Our three largest customers (based on net sales) accounted for 42.4 percent of accounts receivable at December 31, 2010, compared with 44.0 percent at December 31, 2009. As a result, business failure or insolvency of one of our main customers may have a material adverse effect on our business, financial condition and results of operations.

***We Derive Most of Our Revenues from the Sale of a Relatively Small Number of Products***

We derive most of our revenues from the sale of a relatively small number of lithography equipment systems (197 units in 2010 and 70 units in 2009), with an average selling price ( ASP ) in 2010 of EUR 19.8 million (EUR 24.1 million for new systems and EUR 4.4 million for used systems) and an ASP in 2009 of EUR 16.8 million (EUR 21.1 million for new systems and EUR 7.9 million for used systems). As a result, the timing of recognition of revenue from a small number of product sales may have a significant impact on our net sales and operating results for a particular reporting period. Specifically, the failure to receive anticipated orders, or delays in shipments near the end of a particular reporting period, due, for example, to:

- a downturn in the highly cyclical semiconductor industry;
- unanticipated shipment rescheduling;
- cancellation or order push-back by customers;
- unexpected manufacturing difficulties; and
- delays in deliveries by suppliers,

may cause net sales in a particular reporting period to fall significantly below net sales in previous periods or below our expected net sales, and may have a material adverse effect on our operating results for that period.

In particular our published quarterly earnings may vary significantly from quarter to quarter and may vary in the future for the reasons discussed above.

***The Pace of Introduction of Our New Products Is Accelerating and Is Accompanied by Potential Design and Production Delays and by Significant Costs***

The development and initial production, installation and enhancement of the systems we produce is often accompanied by design and production delays and related costs of a nature typically associated with the introduction and transition to full-scale manufacturing of complex capital equipment. While we expect and plan for a corresponding learning-curve effect in our product development cycle, we cannot predict with precision the time and expense required to overcome these initial problems and to ensure full performance to specifications. Moreover, we anticipate that this learning-curve effect will continue to present increasingly difficult challenges with every new generation as a result of increasing technological complexity. There is a risk that we may not be able to introduce or bring to full-scale production new products as quickly as we anticipate in our product introduction plans, which could have a material adverse effect on our business, financial condition and results of operations.

For the market to accept technology enhancements, our customers, in many cases, must upgrade their existing technology capabilities. Such upgrades from established technology may not be available to our customers to enable volume production using our new technology enhancements. This could result in our customers not purchasing, or pushing back or cancelling orders for our technology enhancements, which could negatively impact our business, financial condition and results of operations.

***Failure to Adequately Protect the Intellectual Property Rights Upon Which We Depend Could Harm Our Business***

We rely on intellectual property rights such as patents, copyrights and trade secrets to protect our proprietary technology. However, we face the risk that such measures could prove to be inadequate because:

- intellectual property laws may not sufficiently support our proprietary rights or may change in the future in a manner adverse to us;
- patent rights may not be granted or construed as we expect;
- patents will expire which may result in key technology becoming widely available that may hurt our competitive position;
- the steps we take to prevent misappropriation or infringement of our proprietary rights may not be successful; and
- third parties may be able to develop or obtain patents for similar competing technology.

In addition, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation may result in substantial costs and diversion of resources, and, if decided unfavorably to us, could have a material adverse effect on our business, financial condition and results of operations.

***Defending Against Intellectual Property Claims Brought by Others Could Harm Our Business***

In the course of our business, we are subject to claims by third parties alleging that our products or processes infringe upon their intellectual property rights. If successful, such claims could limit or prohibit us from developing our technology and manufacturing our products, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, our customers may be subject to claims of infringement from third parties, alleging that our products used by such customers in the manufacture of semiconductor products and/or the processes relating to the use of our products infringe one or more patents issued to such parties. If such claims were successful, we could be required to indemnify customers for some or all of any losses incurred or damages assessed against them as a result of such infringement, which could have a material adverse effect on our business, financial condition and results of operations.

We may also incur substantial licensing or settlement costs where doing so would strengthen or expand our intellectual property rights or limit our exposure to intellectual property claims brought by others, which may have a material adverse effect on our business, financial condition and results of operations.

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***We Are Subject to Risks in Our International Operations***

The majority of our sales are made to customers outside Europe. There are a number of risks inherent in doing business in some of those regions, including the following:

- Potentially adverse tax consequences;
- Unfavorable political or economic environments;
- Unexpected legal or regulatory changes; and
- An inability to effectively protect intellectual property.

If we are unable to manage successfully the risks inherent in our international activities, our business, financial condition and results of operations could be materially and adversely affected.

In particular, 30.6 percent of our 2010 revenues and 27.6 percent of our 2009 revenues were derived from customers in Taiwan. Taiwan has a unique international political status. The People s Republic of China asserts sovereignty over Taiwan and does not recognize the legitimacy of the Taiwanese government. Changes in relations between Taiwan and the People s Republic of China, Taiwanese government policies and other factors affecting Taiwan s political, economic or social environment could have a material adverse effect on our business, financial condition and results of operations.

***We Are Dependent on the Continued Operation of a Limited Number of Manufacturing Facilities***

All of our manufacturing activities, including subassembly, final assembly and system testing, take place in clean room facilities in Veldhoven, the Netherlands, in Wilton, Connecticut, the United States and in Linkou, Taiwan. These facilities are subject to disruption for a variety of reasons, including work stoppages, fire, energy shortages, flooding or other natural disasters. We cannot ensure that alternative 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 a disruption could have a material adverse effect on our business, financial condition and results of operations.

***Because of Labor Laws and Practices, Any Workforce Reductions That We May Seek to Implement in Order to Reduce Costs Company-Wide May Be Delayed or Suspended***

The semiconductor market is highly cyclical and as a consequence we may need to implement workforce reductions in case of a downturn, in order to adapt to such market changes. In accordance with labor laws and practices applicable in the jurisdictions in which we operate, a reduction of any significance may be subject to formal procedures that can delay, or may result in the modification of our planned workforce reductions. For example, in the Netherlands, if our Works Council renders contrary advice in connection with a proposed workforce reduction in the Netherlands, but we nonetheless determine to proceed, we must temporarily suspend any action while the Works Council determines whether to appeal to the Enterprise Chamber of the Amsterdam Court of Appeal. This appeal process can cause a delay of several months and may require us to address any procedural inadequacies identified by the Court in the way we reached our decision. Such delays could impair our ability to reduce costs company-wide to levels comparable to those of our competitors.

***Fluctuations in Foreign Exchange Rates Could Harm Our Results of Operations***

We are exposed to currency risks. We are particularly exposed to fluctuations in the exchange rates between the U.S. dollar, Japanese yen and the euro as we incur manufacturing costs for our systems predominantly in euros while a portion of our net sales and cost of sales is denominated in U.S. dollars and Japanese yen.

In addition, a substantial portion of our assets and liabilities and operating results are denominated in U.S. dollars, and a small portion of our assets, liabilities and operating results are denominated in currencies other than the euro and the U.S. dollar. Our consolidated financial statements are expressed in euros. Accordingly, our results of operations and assets and liabilities are exposed to fluctuations in exchange rates between the euro and various currencies. In general, our customers run their businesses in U.S. dollars, and therefore a further weakening of the U.S. dollar against the euro might impact the ability of our customers to purchase our products.

Furthermore, a strengthening of the euro particularly against the Japanese yen could further intensify price-based competition in those regions that account for the majority of our sales, resulting in lower prices and margins and a material adverse effect on our business, financial condition and results of operations.

Also see Item 5.A. Operating Results, Foreign Exchange Management , Item 5.F. Tabular Disclosure of Contractual Obligations , Item 11 Quantitative and Qualitative Disclosures About Market Risk and Note 3 to our consolidated financial statements.

***We May Be Unable to Make Desirable Acquisitions or to Integrate Successfully Any Businesses We Acquire***

Our future success may depend in part on the acquisition of businesses or technologies intended to complement, enhance or expand our current business or products or that might otherwise offer us growth opportunities. Our ability to complete such transactions may be hindered by a number of factors, including potential difficulties in obtaining government approvals.

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Any acquisition that we do make would pose risks related to the integration of the new business or technology with our business. We cannot be certain that we will be able to achieve the benefits we expect from a particular acquisition or investment. Acquisitions may also strain our managerial and operational resources, as the challenge of managing new operations may divert our staff from monitoring and improving operations in our existing business. Our business, financial condition and results of operations may be materially and adversely affected if we fail to coordinate our resources effectively to manage both our existing operations and any businesses we acquire.

***Our Business and Future Success Depend on Our Ability to Attract and Retain a Sufficient Number of Adequately Educated and Skilled Employees***

Our business and future success significantly depend upon our employees, including a large number of highly qualified professionals, as well as our ability to attract and retain employees. Competition for such personnel is intense, and we may not be able to continue to attract and retain such personnel, which could adversely affect our business, financial condition and results of operations.

In addition, the increasing complexity of our products results in a longer learning-curve for new and existing employees leading to an inability to decrease cycle times and incurring significant additional costs, which could adversely affect our business, financial condition and results of operations.

## Risks Related to Our Ordinary Shares

***We may not declare cash dividends at all or in any particular amounts in any given year***

Our policy is to pay a sustainable annual dividend in an amount that is stable or grows over time. However, the decision by our Board of Management in any given year to propose to our Supervisory Board that a dividend be proposed to our Annual General Meeting of Shareholders in any given year will be subject to the availability of distributable profits or retained earnings and may be affected by, among other factors: the Board of Management s views on our potential future funding requirements, including for investments in production capacity and the funding of our research and development programs, as well for acquisition opportunities that may arise from time to time; and by future changes in applicable income tax and corporate laws. Correspondingly, our dividend payments could decline or be eliminated with respect to any particular year in the future. Such a reduction or elimination in our dividend payments could have a negative effect on our share price.

***The Price of Our Ordinary Shares is Volatile***

The current market price of our ordinary shares may not be indicative of prices that will prevail in the future. In particular, the market price of our ordinary shares has in the past experienced significant fluctuation, including fluctuation that is unrelated to our performance. This fluctuation may continue in the future.

***Restrictions on Shareholder Rights May Dilute Voting Power***

Our Articles of Association provide that we are subject to the provisions of Dutch law applicable to large corporations, called structuurregime . These provisions have the effect of concentrating control over certain corporate decisions and transactions in the hands of our Supervisory Board. As a result, holders of ordinary shares may have more difficulty in protecting their interests in the face of actions by members of our Supervisory Board than if we were incorporated in the United States or another jurisdiction.

Our authorized share capital also includes a class of cumulative preference shares and ASML has granted Stichting Preferente Aandelen ASML , a Dutch foundation, an option to acquire, at their nominal value of EUR 0.02 per share, such cumulative preference shares. Exercise of the cumulative preference share option would effectively dilute the voting power of our outstanding ordinary shares by one-half, which may discourage or significantly impede a third party from acquiring a majority of our voting shares.

See further Item 6.C. Board Practices and Item 10.B. Memorandum and Articles of Association .

**Item 4 Information on the Company**

**A. History and Development of the Company**

We commenced business operations in 1984. ASM Lithography Holding N.V. was incorporated in the Netherlands on October 3, 1994 to serve as the holding company for our worldwide operations, which include operating subsidiaries in the Netherlands, the United States, Italy, France, Germany, the United Kingdom, Ireland, Belgium, Korea, Taiwan, Singapore, China (including Hong Kong), Japan, Malaysia and Israel. In 2001, we changed our name from ASM Lithography Holding N.V. to ASML Holding N.V. Our registered office is located at De Run 6501, 5504 DR Veldhoven, the Netherlands, telephone number +31 40 268 3000.

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In May 2001, we merged with Silicon Valley Group ( SVG ) (now part of ASML US, Inc.), a company that was active in lithography, as well as in track and thermal businesses, which we subsequently divested or discontinued.

From time to time, we pursue acquisitions of smaller businesses that we believe will complement or enhance our core lithography business. These have included the acquisition of MaskTools in July 1999 and the acquisition of Brion Technologies, Inc. ( Brion ) in March 2007.

**Capital Expenditures and Divestitures**

Our capital expenditures (purchases of property, plant and equipment) for 2010, 2009 and 2008 amounted to EUR 128.7 million, EUR 105.0 million and EUR 259.8 million, respectively. Our capital expenditures in these years generally related to the construction of new facilities in Veldhoven, the Netherlands, for our latest technologies such as EUV and NXT (in 2010, 2009 and 2008) and in Taiwan for our ASML Center of Excellence ( ACE , in 2008), purchases of machinery and equipment, information technology investments, and leasehold improvements to our facilities (in 2010, 2009 and 2008).

Divestitures mainly consisting of machinery and equipment (more specifically prototypes, demonstration and training systems) amounted to EUR 6.7 million for 2010, EUR 10.9 million for 2009 and EUR 4.3 million for 2008. See Note 11 to our consolidated financial statements.

**B. Business Overview**

We are one of the world s leading providers of advanced technology systems for the semiconductor industry. We offer an integrated portfolio of lithography systems mainly for manufacturing complex Integrated Circuits ( semiconductors , ICs or chips ). We supply lithography systems to Integrated Circuit ( IC ) manufacturers throughout Asia, the United States and Europe and also provide our customers with a full range of support services from advanced process and product applications knowledge to complete round-the-clock service support.

**Our Business Model**

Our business model is derived from our Value of Ownership concept which is based on the following principles:

- offering ongoing improvements in productivity, imaging and overlay by introducing advanced technology based on modular platforms and advanced applications outside the traditional lithography business, each resulting in lower costs per product for our customers;
- providing customer services that ensure rapid, efficient installation and superior on-site support and training to optimize manufacturing processes of our customers and improve productivity;
- maintaining appropriate levels of R&D to offer the most advanced technology suitable for high-throughput and low-cost volume production at the earliest possible date;
- enhancing the capabilities of the installed base of our customers through ongoing field upgrades of key value drivers (productivity, imaging and overlay) based on further technology developments;
- reducing the cycle time between a customer s order of a system and the use of that system in volume production on-site;
- expanding operational flexibility in research and manufacturing by reinforcing strategic alliances with world class partners, including outsourcing companies;
- improving the reliability and uptime of our installed system base; and

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