

AXCELIS TECHNOLOGIES INC

Form 10-Q

November 05, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

Or

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

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

Commission file number 000-30941

**AXCELIS TECHNOLOGIES, INC.**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**34-1818596**  
(IRS Employer  
Identification No.)

**108 Cherry Hill Drive**  
**Beverly, Massachusetts 01915**

(Address of principal executive offices, including zip code)

**(978) 787-4000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 31, 2012 there were 107,876,251 shares of the registrant's common stock outstanding.



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Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements.****Axcelis Technologies, Inc.****Consolidated Statements of Operations****(In thousands, except per share amounts)****(Unaudited)**

|   | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2012</b>                                 | <b>2011</b> | <b>2012</b>                                | <b>2011</b> |
| Revenue                                       |   |             |  |             |
| Product                                       | \$ 37,093                                   | \$ 64,350   | \$ 136,096                                 | \$ 235,287  |
| Service                                       | 7,547                                       | 8,105       | 22,664                                     | 23,718      |
| Total revenue                                 | 44,640                                      | 72,455      | 158,760                                    | 259,005     |
| Cost of revenue                               |   |             |  |             |
| Product                                       | 24,809                                      | 40,055      | 84,692                                     | 149,833     |
| Service                                       | 5,464                                       | 5,505       | 16,377                                     | 17,058      |
| Total cost of revenue                         | 30,273                                      | 45,560      | 101,069                                    | 166,891     |
| Gross profit                                  | 14,367                                      | 26,895      | 57,691                                     | 92,114      |
| Operating expenses                            |   |             |  |             |
| Research and development                      | 9,851                                       | 11,389      | 31,999                                     | 35,036      |
| Sales and marketing                           | 5,470                                       | 7,237       | 18,284                                     | 22,731      |
| General and administrative                    | 6,325                                       | 8,458       | 20,611                                     | 25,929      |
| Restructuring charges                         | 578   |             | 3,612                                      |             |
| Total operating expenses                      | 22,224                                      | 27,084      | 74,506                                     | 83,696      |
| Income (loss) from operations                 | (7,857)                                     | (189)       | (16,815)                                   | 8,418       |
| Other income (expense)                        |   |             |  |             |
| Interest income                               | 9   | 7           | 27   | 24          |
| Other, net                                    | (627)                                       | 1,563       | (999)                                      | (45)        |
| Total other income (expense)                  | (618)                                       | 1,570       | (972)                                      | (21)        |
| Income (loss) before income taxes             | (8,475)                                     | 1,381       | (17,787)                                   | 8,397       |
| Income taxes                                  | 243   | 230         | 1,429                                      | 1,207       |
| Net income (loss)                             | \$ (8,718)                                  | \$ 1,151    | \$ (19,216)                                | \$ 7,190    |
| Net income (loss) per share                   |   |             |  |             |
| Basic and diluted net income (loss) per share | \$ (0.08)                                   | \$ 0.01     | \$ (0.18)                                  | \$ 0.07     |

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| Shares used in computing basic and diluted net income (loss) per share |         |         |         |         |
|--|---------|---------|---------|---------|
| Basic weighted average common shares                                   | 107,855 | 106,417 | 107,521 | 106,152 |
| Diluted weighted average common shares                                 | 107,855 | 108,192 | 107,521 | 109,452 |

See accompanying Notes to these Consolidated Financial Statements

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**Axcelis Technologies, Inc.**

**Consolidated Statements of Comprehensive Income**

**(In thousands)**

**(Unaudited)**

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2012</b>               | <b>2011</b> | <b>2012</b>              | <b>2011</b> |
| Net income (loss)                        | \$ (8,718)                | \$ 1,151    | \$ (19,216)              | \$ 7,190    |
| Other comprehensive income:              |                           |             |                          |             |
| Foreign currency translation adjustments | 1,105                     | (3,999)     | (308)                    | (1,034)     |
| Comprehensive income (loss)              | \$ (7,613)                | \$ (2,848)  | \$ (19,524)              | \$ 6,156    |

See accompanying Notes to these Consolidated Financial Statements

Table of Contents**Axcelis Technologies, Inc.****Consolidated Balance Sheets****(In thousands)****(Unaudited)**

|  | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|-------------------------------|------------------------------|
| <b>ASSETS</b>                              |                               |                              |
| Current assets                             |                               |                              |
| Cash and cash equivalents                  | \$ 35,220                     | \$ 46,877                    |
| Accounts receivable, net                   | 24,978                        | 35,071                       |
| Inventories, net                           | 123,280                       | 120,023                      |
| Prepaid expenses and other current assets  | 4,973                         | 10,062                       |
| Total current assets                       | 188,451                       | 212,033                      |
| Property, plant and equipment, net         | 35,107                        | 37,204                       |
| Long-term restricted cash                  | 103                           | 104                          |
| Other assets                               | 12,928                        | 19,904                       |
| Total assets                               | \$ 236,589                    | \$ 269,245                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                               |                              |
| Current liabilities                        |                               |                              |
| Accounts payable                           | \$ 11,683                     | \$ 19,551                    |
| Accrued compensation                       | 7,175                         | 8,285                        |
| Warranty                                   | 2,107                         | 3,556                        |
| Income taxes                               | 356                           | 495                          |
| Deferred revenue                           | 6,641                         | 10,786                       |
| Other current liabilities                  | 3,711                         | 4,799                        |
| Total current liabilities                  | 31,673                        | 47,472                       |
| Long-term deferred revenue                 | 544                           | 1,488                        |
| Other long-term liabilities                | 4,944                         | 5,730                        |
| Total liabilities                          | 37,161                        | 54,690                       |
| Commitments and contingencies (Note 10)    |                               |                              |
| Stockholders' equity                       |                               |                              |
| Preferred stock                            |                               |                              |
| Common stock                               | 108                           | 107                          |
| Additional paid-in capital                 | 503,728                       | 499,332                      |
| Treasury stock                             | (1,218)                       | (1,218)                      |
| Accumulated deficit                        | (307,659)                     | (288,443)                    |
| Accumulated other comprehensive income     | 4,469                         | 4,777                        |
| Total stockholders' equity                 | 199,428                       | 214,555                      |
| Total liabilities and stockholders' equity | \$ 236,589                    | \$ 269,245                   |

See accompanying Notes to these Consolidated Financial Statements





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## Axcelis Technologies, Inc.

## Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

|   | Nine months ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2012                               | 2011      |
| <b>Cash flows from operating activities:</b>  |                                    |           |
| Net income (loss)   | \$ (19,216)                        | \$ 7,190  |
| Adjustments to reconcile net income (loss) to net cash (used for) provided by operating activities: |                                    |           |
| Depreciation and amortization   | 5,419                              | 6,180     |
| Deferred taxes  | 998                                | 75        |
| Stock-based compensation expense  | 3,411                              | 3,644     |
| Provision for excess inventory  | 678                                | 661       |
| Changes in operating assets & liabilities   |                                    |           |
| Accounts receivable   | 10,143                             | 17,994    |
| Inventories   | (3,496)                            | (13,384)  |
| Prepaid expenses and other current assets   | 4,490                              | 5,910     |
| Accounts payable & other current liabilities  | (11,601)                           | (15,237)  |
| Deferred revenue  | (5,089)                            | (4,339)   |
| Income taxes  | (135)                              | 798       |
| Other assets and liabilities  | 3,025                              | (8,640)   |
| Net cash (used for) provided by operating activities  | (11,373)                           | 852       |
| <b>Cash flows from investing activities:</b>  |                                    |           |
| Expenditures for property, plant, and equipment   | (536)                              | (1,950)   |
| Decrease in restricted cash   | 1                                  |           |
| Net cash used for investing activities  | (535)                              | (1,950)   |
| <b>Cash flows from financing activities:</b>  |                                    |           |
| Financing fees and other expenses   |                                    | (199)     |
| Proceeds from exercise of stock options   | 863                                | 272       |
| Proceeds from Employee Stock Purchase Plan  | 179                                | 275       |
| Net cash provided by financing activities   | 1,042                              | 348       |
| Effect of exchange rate changes on cash   | (791)                              | (580)     |
| Net decrease in cash and cash equivalents   | (11,657)                           | (1,330)   |
| Cash and cash equivalents at beginning of period  | 46,877                             | 45,743    |
| Cash and cash equivalents at end of period  | \$ 35,220                          | \$ 44,413 |

See accompanying Notes to these Consolidated Financial Statements

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**Axcelis Technologies, Inc.**

**Notes To Consolidated Financial Statements (Unaudited)**

**Note 1. Nature of Business and Basis of Presentation**

Axcelis Technologies, Inc. ( Axcelis or the Company ), is a worldwide producer of ion implantation, dry strip and other processing equipment used in the fabrication of semiconductor chips in the United States, Europe and Asia. In addition, the Company provides extensive aftermarket service and support, including spare parts, equipment upgrades, and maintenance services to the semiconductor industry.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments which are of a normal recurring nature and considered necessary for a fair presentation of these financial statements, have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for other interim periods or for the year as a whole.

The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Axcelis Technologies, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011.

**Note 2. Stock-Based Compensation**

The Company maintains the Axcelis Technologies, Inc. 2000 Stock Plan and the 2012 Equity Incentive Plan, stock award and incentive plans which permit the issuance of options, restricted stock, restricted stock units and performance awards to selected employees, directors and consultants of the Company. The Company also maintains the Axcelis Technologies, Inc. Employee Stock Purchase Plan (the ESPP ), an Internal Revenue Code Section 423 plan. The 2000 Stock Plan and the ESPP are more fully described in Note 12 to the consolidated financial statements in the Company's 2011 Annual Report on Form 10-K. The 2012 Equity Incentive Plan became effective on May 2, 2012.

The Company recognized stock-based compensation expense of \$1.5 million and \$3.4 million for the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2011, the Company recognized stock-based compensation expense of \$1.5 million and \$3.6 million, respectively. These amounts include compensation expense related to restricted stock units, non-qualified stock options and stock to be issued to participants under the ESPP.



Table of Contents**Note 3. Net Income (Loss) Per Share**

Basic earnings per share is computed by dividing income available to common stockholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include incremental common shares that would have been outstanding if the potentially dilutive common shares had been issued.

The Company incurred net losses for the three and nine months ended September 30, 2012 and has excluded 1,010,304 and 1,508,168 incremental shares attributable to outstanding stock options, restricted stock and restricted stock units for the three and nine months ended September 30, 2012, respectively, from the calculation of diluted net loss per share for those periods because the effect would be anti-dilutive.

The components of net income (loss) per share are as follows:

|  | Three months ended<br>September 30,           |   | Nine months ended<br>September 30,            |   |
|--|---|---|---|---|
|  | 2012<br>(in thousands, except per share data) | 2011<br>(in thousands, except per share data) | 2012<br>(in thousands, except per share data) | 2011<br>(in thousands, except per share data) |
| Income (loss)  | \$ (8,718)                                    | \$ 1,151                                      | \$ (19,216)                                   | \$ 7,190                                      |
| Weighted average common shares outstanding used in computing basic net income (loss) per share   | 107,855                                       | 106,417                                       | 107,521                                       | 106,152                                       |
| Incremental shares   |   | 1,775   |   | 3,300   |
| Weighted average common shares outstanding used in computing diluted net income (loss) per share | 107,855                                       | 108,192                                       | 107,521                                       | 109,452                                       |
| Net income (loss) per share:   |   |   |   |   |
| Basic  | \$ (0.08)                                     | \$ 0.01                                       | \$ (0.18)                                     | \$ 0.07                                       |
| Diluted  | \$ (0.08)                                     | \$ 0.01                                       | \$ (0.18)                                     | \$ 0.07                                       |

**Note 4. Inventories**

The components of inventories are as follows:

|                 | September 30,<br>2012 | December 31,<br>2011 |
|-----------------|-----------------------|----------------------|
|                 | (in thousands)        |                      |
| Raw materials   | \$ 87,938             | \$ 85,829            |
| Work in process | 17,761                | 25,639               |
|                 | 17,581                | 8,555                |

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|                                    |    |         |    |         |
|------------------------------------|----|---------|----|---------|
| Finished goods (completed systems) | \$ | 123,280 | \$ | 120,023 |
|------------------------------------|----|---------|----|---------|

When recorded, reserves reduce the carrying value of inventories to their net realizable value. The Company establishes inventory reserves when conditions exist that indicate inventories may be in excess of anticipated demand or are obsolete based upon assumptions about future demand for the Company's products or market conditions. The Company regularly evaluates the ability to realize the value of inventories based on a combination of factors including: forecasted sales or usage, estimated product- end- of- life dates, estimated current and future market value and new product introductions. Purchasing and usage alternatives are also explored to mitigate inventory exposure. As of September 30, 2012 and December 31, 2011, inventories are stated net of inventory reserves of \$20.2 million and \$22.8 million, respectively.

During the three months ended September 30, 2012, the Company reduced inventory (\$1.1 million) and recorded an expense to cost of revenues due to lower than normal production capacity.

Table of Contents**Note 5. Restructuring Charges**

The Company recorded restructuring charges of \$0.6 million and \$3.6 million for the three and nine months ended September 30, 2012, respectively. These charges represent severance and related costs in connection with a reduction in force implemented by the Company related to actions taken by management to control costs and improve the focus of its operations in order to sustain future profitability and conserve cash. The liability at September 30, 2012 of \$0.5 million is expected to be paid in the fourth quarter of 2012.

Changes in the Company's restructuring liability, which consists primarily of severance and related costs, included in amounts reported as other current liabilities, are as follows:

|                               | (in thousands) |         |
|-------------------------------|----------------|---------|
| Balance at December 31, 2011  | \$             | 171     |
| Severance and related costs   |                | 3,612   |
| Cash payments                 |                | (3,117) |
| Non-cash items                |                | (130)   |
| Balance at September 30, 2012 | \$             | 536     |

**Note 6. Product Warranty**

The Company generally offers a one year warranty for all of its systems, the terms and conditions of which vary depending upon the product sold. For all systems sold, the Company accrues a liability for the estimated cost of standard warranty at the time of system shipment and defers the portion of systems revenue attributable to the fair value of non-standard warranty. Costs for non-standard warranty are expensed as incurred. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated product failure rates, material usage and service labor costs. The Company periodically assesses the adequacy of its recorded liability and adjusts the amount as necessary.

Changes in the Company's product warranty liability are as follows:

|  | Nine months ended<br>September 30, |         |          |
|--|------------------------------------|---------|----------|
|  | 2012                               | 2011    |          |
|  | (in thousands)                     |         |          |
| Balance at January 1   | \$                                 | 3,697   | \$ 2,713 |
| Warranties issued during the period  |                                    | 2,170   | 3,910    |
| Settlements made during the period   |                                    | (2,550) | (4,179)  |
| Changes in estimate of liability for pre-existing warranties during the period |                                    | (1,155) | 1,385    |
| Balance at September 30  | \$                                 | 2,162   | \$ 3,829 |
| Amount classified as current   | \$                                 | 2,107   | \$ 3,639 |
| Amount classified as other long-term liabilities                               |                                    | 55      | 190      |
| Total warranty liability   | \$                                 | 2,162   | \$ 3,829 |





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**Note 7. Financial Arrangements**

**Bank Credit Facility**

The Company has a revolving credit facility with a bank pursuant to an Amended and Restated Loan and Security Agreement dated April 25, 2011 (the "Revolving Credit Facility"). The facility provides for borrowings up to \$30 million, based primarily on accounts receivable, and is subject to certain financial covenants requiring the Company to maintain minimum levels of operating results and liquidity. The agreement will terminate on April 10, 2015. The Company uses the facility to support letters of credit and for short term borrowing as needed.

On March 5, 2012, the Company entered into a Second Loan Modification Agreement relating to the Revolving Credit Facility to revise financial covenants. To facilitate future availability, on September 10, 2012, the Company further modified the Revolving Credit Facility by entering into the Third Loan Modification Agreement (the "Third Modification Agreement"). The Third Modification Agreement revises the covenant setting the Company's minimum trailing six month Adjusted Net Income (as such capitalized term is defined in the agreement). All other material terms of the Revolving Credit Facility are unaffected by the Third Modification Agreement. The Third Modification Agreement is included in this quarterly report as Exhibit 10.1.

At September 30, 2012, the Company's available borrowing capacity under the Revolving Credit Facility was \$18.5 million and the Company was compliant with all covenants of the loan agreement. There were no borrowings against this facility during the three or nine months ended September 30, 2012.

**Note 8. Income Taxes**

Income tax expense relates principally to operating results of foreign entities in jurisdictions, primarily in Europe and Asia, where the Company earns taxable income. The Company has significant net operating losses in the United States and certain tax jurisdictions and, as a result, does not pay significant income taxes in those jurisdictions.

During the three months ended September 30, 2012, the Company settled a tax dispute with a foreign jurisdiction for an amount (\$0.9 million) equal to the charge it had previously recorded related to an uncertain tax position. The settlement did not have an impact on the Company's results of operations or cash flows for the three and nine months ended September 30, 2012.

**Note 9. Significant Customers**

For the three months ended September 30, 2012, three customers accounted for approximately 16.1%, 13.1% and 10.9% of revenue. For the nine months ended September 30, 2012, two customers accounted for 21.3% and 11.4% of revenue. For the three months ended September 30, 2011,

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three customers accounted for approximately 14.4%, 13.9% and 10.4% of revenue. For the nine months ended September 30, 2011, three customers accounted for 17.9%, 11.4% and 10.4% of revenue.

At September 30, 2012, two customers accounted for 13.0% and 12.0% of consolidated accounts receivable. At September 30, 2011, three customers accounted for 15.3%, 14.1% and 10.4% of consolidated accounts receivable.

### **Note 10. Contingencies**

#### **Litigation**

The Company is, from time to time, a party to litigation that arises in the normal course of its business operations. The Company is not presently a party to any litigation that it believes might have a material adverse effect on its business operations.

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**Indemnifications**

The Company's system sales agreements typically include provisions under which the Company agrees to defend its customers against third-party claims of intellectual property infringement under specified conditions and to indemnify customers against any damage and costs awarded in connection with such claims. The Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

**Note 11. New Accounting Guidance Recently Adopted - Comprehensive Income**

Effective January 1, 2012 the Company adopted Accounting Standards Update, or ASU, No. 2011-05, *Comprehensive Income (Topic 220)*. This newly issued accounting standard requires the Company to report comprehensive income either in a single continuous statement or in two separate but consecutive financial statements. The adoption of this standard did impact the presentation of other comprehensive income, as we have elected to present two separate but consecutive statements, but did not have an impact on our financial position or results of operations.

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

Certain statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-Q are forward-looking statements that involve risks and uncertainties. Words such as may, will, should, would, anticipates, expects, intends, plans, believes, seeks, estimates and similar expressions identify such forward-looking statements. The forward-looking statements contained herein are based on current expectations and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. Factors that might cause such a difference include, among other things, those set forth or referred to under Liquidity and Capital Resources and Risk Factors and others discussed elsewhere in this Form 10-Q. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements, except as may be required by law.

**Overview**

The semiconductor capital equipment industry is subject to significant cyclical swings in capital spending by semiconductor manufacturers. Capital spending is influenced by demand for semiconductors and the products using them, the utilization rate and capacity of existing semiconductor manufacturing facilities and changes in semiconductor technology, all of which are outside of our control. As a result, our revenue and gross margins fluctuate from year to year and period to period. Our operating expense base is largely fixed and does not vary significantly with changes in volume. Therefore, we experience fluctuations in operating results and cash flows depending on our revenue as driven by the level of capital expenditures by semiconductor manufacturers.

The increasing and sizable expense of building, upgrading or expanding a semiconductor fabrication facility is causing more semiconductor companies to contract with foundries to manufacture their semiconductors. In addition, consolidation and partnering within the semiconductor manufacturing industry is increasing.

Weak industry conditions continued through the first nine months of 2012, resulting in a decline in our 2012 revenues as compared with the same period in 2011. Although future market conditions are difficult to predict, we anticipate the industry will continue to experience similar conditions for the fourth quarter of 2012 and into 2013.

Operating results for the periods presented are not necessarily indicative of the results that may be expected for future interim periods or years as a whole.

**Critical Accounting Estimates**

Management's discussion and analysis of our financial condition and results of operations are based upon Axcelis' consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and

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expenses, and related disclosure of contingent assets and liabilities. On an on- going basis, we evaluate our estimates, including those related to revenue recognition, income taxes, accounts receivable, inventory and warranty obligations. Management's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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Management has not identified any need to make any material change in, and has not changed, any of our critical accounting estimates and judgments as described in Management's Discussion and Analysis of Financial Conditions and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

**Results of Operations**

The following table sets forth our results of operations as a percentage of revenue for the periods indicated:

| <b>Axcelis Technologies, Inc.</b>            |   |              |  |              |
|--|---|--------------|--|--------------|
| <b>Consolidated Statements of Operations</b> |   |              |  |              |
| <b>Percentage of Revenue</b>                 |   |              |  |              |
| <b>(Unaudited)</b>                           |   |              |  |              |
|  | <b>Three months ended<br/>September 30,</b> |              | <b>Nine months ended<br/>September 30,</b> |              |
|  | <b>2012</b>                                 | <b>2011</b>  | <b>2012</b>                                | <b>2011</b>  |
| <b>Revenue</b>                               |   |              |  |              |
| Product                                      | 83.1%                                       | 88.8%        | 85.7%                                      | 90.8%        |
| Service                                      | 16.9  | 11.2         | 14.3                                       | 9.2          |
| <b>Total revenue</b>                         | <b>100.0</b>                                | <b>100.0</b> | <b>100.0</b>                               | <b>100.0</b> |
| <b>Cost of revenue</b>                       |   |              |  |              |
| Product                                      | 55.6  | 55.3         | 53.3                                       | 57.8         |
| Service                                      | 12.2  | 7.6          | 10.3                                       | 6.6          |
| <b>Total cost of revenue</b>                 | <b>67.8</b>                                 | <b>62.9</b>  | <b>63.6</b>                                | <b>64.4</b>  |
| <b>Gross profit</b>                          | <b>32.2</b>                                 | <b>37.1</b>  | <b>36.4</b>                                | <b>35.6</b>  |
| <b>Operating expenses</b>                    |   |              |  |              |
| Research and development                     | 22.1  | 15.7         | 20.2                                       | 13.5         |
| Sales and marketing                          | 12.2  | 10.0         | 11.5                                       | 8.8          |
| General and administrative                   | 14.2  | 11.7         | 13.0                                       | 10.0         |
| Restructuring charges                        | 1.3   |              | 2.3  |              |
| <b>Total operating expenses</b>              | <b>49.8</b>                                 | <b>37.4</b>  | <b>47.0</b>                                | <b>32.3</b>  |
| <b>Income (loss) from operations</b>         | <b>(17.6)</b>                               | <b>(0.3)</b> | <b>(10.6)</b>                              | <b>3.3</b>   |
| <b>Other income (expense)</b>                |   |              |  |              |
| Interest income                              | 0.0   | 0.0          | 0.0  | 0.0          |
| Other, net                                   | (1.4)                                       | 2.2          | (0.6)                                      | 0.0          |
| <b>Total other income (expense)</b>          | <b>(1.4)</b>                                | <b>2.2</b>   | <b>(0.6)</b>                               | <b>0.0</b>   |
| <b>Income (loss) before income taxes</b>     | <b>(19.0)</b>                               | <b>1.9</b>   | <b>(11.2)</b>                              | <b>3.3</b>   |

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|                   |         |      |         |      |
|-------------------|---------|------|---------|------|
| Income taxes      | 0.5     | 0.3  | 0.9     | 0.5  |
| Net income (loss) | (19.5)% | 1.6% | (12.1)% | 2.8% |

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**Three and nine months ended September 30, 2012 in comparison to the three and nine months ended September 30, 2011.**

**Revenue**

*Product*

Product revenue, which includes systems sales, sales of spare parts and product upgrades, was \$37.1 million, or 83.1% of revenue, for the three months ended September 30, 2012, compared with \$64.4 million, or 88.8% of revenue for the three months ended September 30, 2011. Product revenue was \$136.1 million, or 85.7% of revenue for the nine months ended September 30, 2012, compared with \$235.3 million, or 90.8% of revenue for the nine months ended September 30, 2011. System sales were \$12.8 million, or 28.6% of revenue, for the three months ended September 30, 2012, compared with \$35.1 million, or 48.5% of revenue, for the three months ended September 30, 2011. System sales were \$61.9 million, or 39.0% of revenue, for the nine months ended September 30, 2012, compared with \$143.7 million, or 55.5% of revenue, for the nine months ended September 30, 2011. The decrease in product revenue in the three and nine months ended September 30, 2012 is attributable to the weakening of the semiconductor market and a related decrease in capital spending by semiconductor manufacturers.

A portion of our revenue from system sales is deferred until installation and other services related to future deliverables are performed. The total amount of deferred revenue at September 30, 2012 and 2011 was \$7.2 million and \$11.9 million, respectively. The decrease was mainly due to the decline in deferred revenue from lower systems sales, as reduced by system acceptances, during the second half of 2011 and the first nine months of 2012.

*Service*

Service revenue, which includes the labor component of maintenance and service contracts and fees for service hours provided by on-site service personnel, was \$7.5 million, or 16.9% of revenue, for the three months ended September 30, 2012, compared with \$8.1 million, or 11.2% of revenue, for the three months ended September 30, 2011. Service revenue was \$22.7 million, or 14.3% of revenue for the nine months ended September 30, 2012, compared \$23.7 million, or 9.2% of revenue for the nine months ended September 30, 2011. Service revenue is affected by the expansion of the installed base of off-warranty systems and can fluctuate from period to period based on capacity utilization at customers manufacturing facilities. The decrease in service revenue for the three and nine months ended September 30, 2012 compared to the comparable period one year ago was due to lower service contracts and time and material engagements.

**Revenue Categories used by Management**

As an alternative to the line item revenue categories discussed above, management also uses revenue categorizations which look at revenue by product line (the most significant of which is ion implant) and by aftermarket, as described below.



*Ion Implant*

Included in total revenue of \$44.6 million for the three month period ended September 30, 2012, is revenue from sales of ion implantation products and service of \$33.9 million, or 76.0% of total revenue, compared with \$51.1 million, or 70.5% of total revenue, for the three months ended September 30, 2011. The dollar decrease was due to the factors discussed above for product revenue. Revenue from sales of ion implantation products and service accounted for \$124.8 million, or 78.6% of revenue, for the nine months ended September 30, 2012, compared to \$187.8 million, or 72.5% of revenue, in the nine months ended September 30, 2011. The dollar decrease was due to the factors discussed above for product revenue.

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*Aftermarket*

The Company's product revenues include sales of spare parts and product upgrades as well as complete systems. We refer to the business of selling spare parts and product upgrades, combined with the sale of maintenance labor, service contracts and service hours, as the aftermarket business. Included in total revenue of \$44.6 million is revenue from our aftermarket business of \$31.9 million for the three months ended September 30, 2012, compared to \$37.3 million for the three months ended September 30, 2011. The revenue from our aftermarket business was \$96.8 million for the nine months ended September 30, 2012, compared to \$115.4 million for the nine months ended September 30, 2011. Aftermarket revenue generally increases with expansion of the installed base of systems but can fluctuate period to period based on capacity utilization at customers' manufacturing facilities which affects the sale of spare parts and demand for equipment service. The decrease in aftermarket revenue for the three and nine months ended September 30, 2012 compared to September 30, 2011 was primarily due to a decrease in spare parts and upgrade revenue which is directly related to lower tool utilization at our customers' fabrication facilities and decreased demand for upgrade installations which allow our customers to maximize the technological and throughput capabilities of our tools.

**Gross Profit**

*Product*

Gross profit from product revenue was 33.1% for the three months ended September 30, 2012, compared to 37.8% for the three months ended September 30, 2011. The decrease in gross profit of 4.7 percentage points is attributable to lower systems sales volumes and the related unfavorable absorption of fixed overhead costs, including a \$1.1 million charge for lower than normal production capacity, which reduced gross profit by 16.8 percentage points, offset by a 12.1 percentage point increase in gross profit resulting from the favorable impact of an increased mix of parts and upgrade revenue at higher margins.

Gross profit from product revenue was 37.8% for the nine months ended September 30, 2012, compared to 36.3% for the nine months ended September 30, 2011. The increase in gross profit of 1.5% is due to a 10.7 percentage point increase in gross profit resulting from the favorable impact of an increased mix of parts and upgrade revenue at higher margins, offset by lower systems sales volumes and the related unfavorable absorption of fixed overhead costs which reduced gross profit by 9.2 percentage points.

*Service*

Gross profit from service revenue was 27.6% for the three months ended September 30, 2012, compared to 32.1% for the three months ended September 30, 2011. Gross profit from service revenue was 27.7% for the nine months ended September 30, 2012, compared to 28.1% for the nine months ended September 30, 2011. The decrease in gross profit in both periods is attributable to lower volumes, and changes in the mix and timing of service contracts.

**Research and Development**

Our ability to remain competitive depends largely on continuously developing innovative technology, new and enhanced features and systems and introducing them at competitive prices on a timely basis. Accordingly, based on our strategic plan, we establish annual R&D budgets to fund programs that we expect will drive competitive advantages. Quarterly spending within these annual budgets will vary based on timing of specific program milestones.

Research and development expense was \$9.9 million for the three months ended September 30, 2012; a decrease of \$1.5 million, or 13.5%, compared with \$11.4 million in the three months ended September 30, 2011. The decrease was primarily comprised of reduced payroll costs (\$0.5 million), including lower salary, overtime, and fringe benefit expenditures, decreased project materials and consultants expense (\$0.7 million) and decreased amortization costs for assets used as demonstration and/or test systems (\$0.3 million).

Research and development expense was \$32.0 million for the nine months ended September 30, 2012; a decrease of \$3.0 million or 8.7%, compared with \$35.0 million for the nine months ended September 30, 2011. The decrease was primarily comprised of reduced payroll costs (\$0.4 million), decreased project materials and consultants expense (\$1.7 million), decreased travel and entertainment expenditures (\$0.1 million) and decreased development asset amortization costs (\$0.7 million).

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**Sales and Marketing**

Sales and marketing expense was \$5.5 million for the three months ended September 30, 2012; a decrease of \$1.8 million, or 24.4%, compared with \$7.2 million for the three months ended September 30, 2011. The decrease was primarily comprised of reductions in payroll costs (\$1.4 million), including lower salary and commission expenditures, travel costs (\$0.2 million) and freight costs (\$0.2 million).

Sales and marketing expense was \$18.3 million for the nine months ended September 30, 2012; a decrease of \$4.4 million, or 19.6%, compared with \$22.7 million for the nine months ended September 30, 2011. The decrease was primarily comprised of reductions in payroll costs (\$3.7 million), including lower salary, fringe benefits, and commission expenditures, freight (\$0.5 million) and travel and entertainment (\$0.6 million). The overall decrease was partially offset by an increase of \$0.6 million relating to the support of additional evaluation tools during the period.

**General and Administrative**

General and administrative expense was \$6.3 million for the three months ended September 30, 2012; a decrease of \$2.1 million or 25.2%, compared with \$8.5 million in the three months ended September 30, 2011. The decrease was primarily comprised of reduced payroll costs (\$1.8 million), consultant fees (\$0.2 million), depreciation (\$0.1 million) and fixed overhead costs (\$0.1million). The overall decrease was partially offset by increases in professional services fees of \$0.1 million.

General and administrative expense was \$20.6 million for the nine months ended September 30, 2012; a decrease of \$5.3 million, or 20.5%, compared with \$25.9 million in the nine months ended September 30, 2011. The decrease was primarily comprised of reductions in compensation expense (\$4.4 million), of which \$2.6 million was attributable to reduced bonus expense, project material and consultant fees (\$0.5 million), depreciation (\$0.3 million) and fixed overhead costs (\$0.3 million). The overall decrease was partially offset by lower bad debt expense recoveries (\$0.4 million).

**Restructuring Charges**

In the first quarter of 2012, the Company implemented a reduction in force to improve the focus of its operations, control costs to achieve future profitability and conserve cash. The Company recorded restructuring charges of \$0.6 million and \$3.6 million for the three and nine months ended September 30, 2012, respectively.

**Other Income (Expense)**

Other expense was \$0.6 million and \$1.0 million for the three and nine months ended September 30, 2012, respectively, compared with other income of \$1.6 million and a loss of less than \$0.1 million for the three and nine months ended September 30, 2011, respectively. Other income

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(expense) consisted primarily of foreign exchange gains and losses attributable to fluctuations of the U.S. dollar against the local currencies of certain of the countries in which we operate and bank fees associated with maintaining our credit facility.

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**Income Taxes**

We incur income tax expense relating principally to operating results of foreign entities in Europe and Asia, where we earn taxable income. We have significant net operating loss carryforwards in the United States and certain European tax jurisdictions, and, as a result, we do not currently pay significant income taxes in those jurisdictions. Additionally, we do not recognize the tax benefit for losses in the United States and certain European tax jurisdictions.

During the three months ended September 30, 2012, we settled a tax dispute with a foreign jurisdiction for an amount (\$0.9 million) equal to the charge we had previously recorded related to an uncertain tax position. The settlement did not have an impact on our results of operations or cash flows for the three and nine months ended September 30, 2012.

**Liquidity and Capital Resources**

Our liquidity is affected by many factors. Some of these relate specifically to the operations of our business, for example, the rate of sale of our product lines, and others relate to the uncertainties of global economies, including the availability of credit and the condition of the overall semiconductor equipment industry. Our operating expense base is largely fixed and does not vary significantly with changes in volume. Therefore, we experience fluctuations in operating results and cash flows depending on our revenue as driven by the level of capital expenditures by semiconductor manufacturers.

During the nine months ended September 30, 2012, \$11.4 million of cash was used to support operating activities. Cash and cash equivalents at September 30, 2012 were \$35.2 million, compared to \$46.9 million at December 31, 2011.

Our revolving credit facility with a bank provides for borrowings up to \$30 million based primarily on accounts receivable. The facility has certain financial covenants requiring us to maintain minimum levels of operating results and liquidity. The agreement will terminate on April 10, 2015. We use the facility to support letters of credit and for short term borrowing as needed. At September 30, 2012, our available borrowing capacity under the credit facility was \$18.5 million and we are compliant with all covenants of the loan agreement. There were no borrowings against this facility during the three or nine months ended September 30, 2012.

We believe that based on our current market, revenue, expense and cash flow forecasts, our existing cash and cash equivalents will be sufficient to satisfy our anticipated cash requirements for the short and long-term. In the event that demand for our products declines in future periods, we believe we can align manufacturing and operating spending levels to the changing business conditions and provide sufficient liquidity to support operations.

**Commitments and Contingencies**

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Significant commitments and contingencies at September 30, 2012 are consistent with those discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 14 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

As of September 30, 2012, there have been no material changes to the quantitative information about market risk disclosed in Item 7A to our annual report on Form 10-K for the year ended December 31, 2011.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ) as of the end of the period covered by this report (the Evaluation Date ). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, these disclosure controls and procedures are effective.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during the third quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company is, from time to time, a party to litigation that arises in the normal course of its business operations. The Company is not presently a party to any litigation that it believes might have a material adverse effect on its business operations.

**Item 1A. Risk Factors.**

As of September 30, 2012, there have been no material changes to the risk factors described in Item 1A to our annual report on Form 10-K for the year ended December 31, 2011.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.



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**Item 6. Exhibits.**

The following exhibits are filed herewith:

| Exhibit<br>No | Description   |
|---------------|---|
| 3.1           | Amended and Restated Certificate of Incorporation of the Company adopted May 6, 2009. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on May 11, 2009.   |
| 3.2           | Bylaws of the Company, as amended as of August 8, 2007. Incorporated by reference to Exhibit 3.2 of the Company's Form 10-Q for the quarterly period ended June 30, 2007, filed with the Commission on August 9, 2007.  |
| 10.1          | Third Loan Modification Agreement dated as of September 10, 2012 between the Company and Axcelis Technologies CCS Corporation, as borrowers, and Silicon Valley Bank. Filed herewith.   |
| 31.1          | Certification of the Principal Executive Officer under Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act), dated November 5, 2012. Filed herewith.   |
| 31.2          | Certification of the Principal Financial Officer under Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act), dated November 5, 2012. Filed herewith.   |
| 32.1          | Certification of the Principal Executive Officer pursuant to Section 1350 of Chapter 63 of title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act), dated November 5, 2012. Filed herewith.  |
| 32.2          | Certification of the Principal Financial Officer pursuant to Section 1350 of Chapter 63 of title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act), dated November 5, 2012. Filed herewith.  |
| 101           | The following materials from the Company's Form 10-Q for the quarter ended September 30, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements (Unaudited). |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: November 5, 2012

AXCELIS TECHNOLOGIES, INC.

By: /s/ JAY ZAGER

Jay Zager  
*Executive Vice President and Chief Financial Officer*  
*Duly Authorized Officer and Principal Financial Officer*