

AXCELIS TECHNOLOGIES INC  
Form 10-Q  
May 12, 2008

[QuickLinks](#) -- Click here to rapidly navigate through this document

---

---

**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 March 31, 2008**

or

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

**For the transition period from \_\_\_\_\_ to to  
Commission file number 000-30941**

**AXCELIS TECHNOLOGIES, INC.**

(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 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)

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

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 May 9, 2008 there were 102,440,712 shares of the registrant's common stock outstanding.

---

---

---

**PART I FINANCIAL INFORMATION**

<b>Item 1.</b>	<b>Financial Statements.</b>	3
	Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007	3
	Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007	4
	Consolidated Statements of Cash Flows for the three months ended March 31, 2008 and 2007	5
	Notes to Consolidated Financial Statements	6
<b>Item 2.</b>	<b>Management's Discussion and Analysis of Financial Condition and Results of Operations.</b>	13
	Overview	13
	Critical Accounting Estimates	14
	Results of Operations	15
	Liquidity and Capital Resources	18
	Outlook	19
<b>Item 3.</b>	<b>Quantitative and Qualitative Disclosures About Market Risk.</b>	20
<b>Item 4.</b>	<b>Controls and Procedures.</b>	20

**PART II OTHER INFORMATION**

<b>Item 1.</b>	<b>Legal Proceedings.</b>	21
<b>Item 1A.</b>	<b>Risk Factors.</b>	21
<b>Item 2.</b>	<b>Unregistered Sales of Equity Securities and Use of Proceeds.</b>	21
<b>Item 3.</b>	<b>Defaults Upon Senior Securities.</b>	21
<b>Item 4.</b>	<b>Submission of Matters to a Vote of Security Holders.</b>	22
<b>Item 5.</b>	<b>Other Information.</b>	22
<b>Item 6.</b>	<b>Exhibits.</b>	23
<b>SIGNATURES</b>		24

## PART 1 FINANCIAL INFORMATION

## Item 1. Financial Statements.

**Axcelis Technologies, Inc.**  
**Consolidated Statements of Operations**  
(In thousands, except per share amounts)  
(Unaudited)

	Three months ended March 31,	
	2008	2007
Revenue		
Product	\$ 69,784	\$ 80,726
Service	13,993	14,741
Royalties, primarily from SEN	1,117	2,059
	<u>84,894</u>	<u>97,526</u>
Cost of revenue		
Product	47,988	47,701
Service	7,690	8,575
	<u>55,678</u>	<u>56,276</u>
Gross profit	29,216	41,250
Operating expenses		
Research and development	16,853	18,228
Sales and marketing	11,905	12,938
General and administrative	9,814	10,476
Amortization of intangible assets	656	656
Restructuring charges	51	
	<u>39,279</u>	<u>42,298</u>
Loss from operations	(10,063)	(1,048)
Other income (expense)		
Equity income of SEN	1	4,667
Interest income	690	1,454
Interest expense	(1,601)	(1,668)
Other net	318	(24)
	<u>(592)</u>	<u>4,429</u>
Income (loss) before income taxes	(10,655)	3,381
Income taxes	426	709
Net income (loss)	<u>\$ (11,081)</u>	<u>\$ 2,672</u>
Net income (loss) per share		
Basic	\$ (0.11)	\$ 0.03
Diluted	(0.11)	0.03
Shares used in computing basic and diluted income (loss) per share		
Basic	102,447	101,492

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Three months ended  
March 31,

---

Diluted		102,447	102,421
	See accompanying Notes to Consolidated Financial Statements		

---

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

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 68,192	\$ 83,877
Restricted cash	18,300	17,018
Accounts receivable, net	55,093	76,067
Inventories, net		
Prepaid expenses and other current assets	23,492	32,442
	<u>351,080</u>	<u>378,682</u>
Total current assets	351,080	378,682
Property, plant and equipment, net	67,309	68,101
Investment in SEN	148,481	132,911
Goodwill	42,115	42,115
Intangible assets	10,269	10,925
Other assets	35,859	37,195
	<u>\$ 655,113</u>	<u>\$ 669,929</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 23,521	\$ 27,054
Accrued compensation	12,457	17,003
Warranty	4,513	5,011
Income taxes	763	531
Deferred revenue	21,389	35,827
Other current liabilities	7,907	8,577
Current portion of convertible subordinated debt	80,721	
	<u>151,271</u>	<u>94,003</u>
Total current liabilities	151,271	94,003
Convertible subordinated debt		79,923
Long-term deferred revenue	4,383	4,704
Other long-term liabilities	5,340	5,293
Stockholders' equity		
Preferred stock		
Common stock	103	103
Additional paid-in capital	479,604	478,726
Treasury stock	(1,218)	(1,218)
Accumulated deficit	(12,896)	(1,815)
Accumulated other comprehensive income	28,526	10,210
	<u>494,119</u>	<u>486,006</u>
	<u>\$ 655,113</u>	<u>\$ 669,929</u>

See accompanying Notes to Consolidated Financial Statements

**Axcelis Technologies, Inc.**  
**Consolidated Statements of Cash Flows**  
(In thousands)  
(Unaudited)

	Three months ended March 31,	
	2008	2007
<b>Operating activities</b>		
Net income (loss)	\$ (11,081)	\$ 2,672
Adjustments required to reconcile net income to net cash used for operating activities		
Depreciation and amortization	5,008	4,460
Amortization of intangible assets	656	656
Accretion of premium on convertible subordinated debt	798	737
Stock-based compensation expense	941	1,081
Undistributed income of SEN	(1)	(4,667)
Changes in operating assets and liabilities		
Accounts receivable	21,838	(6,346)
Inventories	(13,686)	(13,587)
Other current assets	9,550	(6,624)
Accounts payable and other current liabilities	(10,197)	(29,342)
Deferred revenue	(14,760)	4,490
Income taxes	226	(2,426)
Cash dividend from SEN		5,677
Other assets and liabilities	(1,587)	(3,501)
	<u>(12,295)</u>	<u>(46,720)</u>
Net cash used for operating activities	(12,295)	(46,720)
<b>Investing activities</b>		
Sales and maturities of marketable securities		29,200
Expenditures for property, plant and equipment	(1,212)	(3,649)
Increase in restricted cash		(39)
	<u>(1,212)</u>	<u>25,512</u>
Net cash (used for) provided by investing activities	(1,212)	25,512
<b>Financing activities</b>		
Repayment of convertible subordinated debt		(74,217)
Proceeds from the exercise of stock options	20	394
Proceeds from employee stock purchase plan	424	585
	<u>444</u>	<u>(73,238)</u>
Net cash (used for) provided by financing activities	444	(73,238)
Effect of exchange rate changes on cash	(2,622)	(593)
	<u>(15,685)</u>	<u>(95,039)</u>
Net increase (decrease) in cash and cash equivalents	(15,685)	(95,039)
Cash and cash equivalents at beginning of period	83,877	140,451
	<u>68,192</u>	<u>45,412</u>
Cash and cash equivalents at end of period	\$ 68,192	\$ 45,412

See accompanying Notes to Consolidated Financial Statements

**Axcelis Technologies, Inc.**

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

**(All tabular amounts in thousands, except per share amounts)**

**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 Company owns 50% of the equity of a joint venture with Sumitomo Heavy Industries, Ltd. in Japan. This joint venture, which is known as SEN Corporation, an SHI and Axcelis Company ("SEN"), licenses technology from the Company relating to the manufacture of specified ion implantation products and has exclusive rights to manufacture and sell these products in the territory of Japan. SEN is the leading producer of ion implantation equipment in Japan.

As of March 31, 2008, the Company had approximately \$68.2 million of cash and cash equivalents. During the first quarter of 2008, the Company experienced negative cash flows from operations and anticipates continued cash outflows in the second quarter of 2008. Furthermore, as of March 31, 2008, the Company's New Notes (see Note 8), due January 15, 2009, were reclassified to current liabilities. On April 23, 2008, the Company entered into a revolving credit facility (the "facility") with a bank that provides for borrowings up to the lesser of (A) \$50 million or (B) specified percentages of the amounts of qualifying accounts receivable and inventory (approximately \$28 million on the date of execution). Presently, the Company's 2008 forecast does not anticipate drawing down on the facility. The underlying agreement contains financial covenants that limit the amounts of net loss the Company can incur in the second and third quarters of 2008 and specify that the Company must report net income in the fourth quarter of 2008 and thereafter. The Company's current forecast for the second quarter of 2008 indicates that it will not meet the financial covenant. The Company does expect to achieve compliance in the fourth quarter of 2008. Should the Company not be able to meet these financial covenants, it may not be able to borrow against the facility. The Company is also negotiating a sale-leaseback of the Company's headquarters and manufacturing facility located in Beverly, Massachusetts. However, there can be no assurance that the sale-leaseback transaction will be completed.

The Company expects that existing cash and cash equivalents and expected positive cash flow for the remainder of 2008, based primarily on current expectations of customer ordering patterns, coupled with planned financing events, will be sufficient to satisfy the Company's anticipated cash requirements for the remainder of 2008 and beyond. Should the Company not be able to obtain financing with acceptable terms and/or current estimates for anticipated cash flow in 2008 prove incorrect, the Company's management may seek alternative strategies intended to improve the Company's cash position. These strategies could include initiating further cost reduction efforts, seeking improvements in working capital management such as seeking additional financing, and reducing or delaying capital expenditures.

The accompanying unaudited consolidated financial statements have been prepared in accordance with 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, considered necessary for a fair presentation 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.



## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

The balance sheet at December 31, 2007 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, 2007.

### **Note 2. Stock-Based Compensation**

The Company maintains the Axcelis Technologies, Inc. 2000 Stock Plan (the "2000 Plan"), a stock award and incentive plan which permits 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 Plan and the ESPP are more fully described in Note 15 to the consolidated financial statements in our 2007 Annual Report on Form 10-K.

Under SFAS No. 123R, the Company recognized stock-based compensation expense of \$0.9 million and \$1.1 million for the three months ended March 31, 2008 and 2007, respectively. These amounts include the impact of recognizing compensation expense related to restricted stock units, restricted stock, non-qualified stock options and stock offered under the ESPP.

### **Note 3. Net Income Per Share**

SFAS No. 128, "Earnings Per Share," requires two presentations of earnings per share, "basic" and "diluted." 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 the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

For purposes of computing diluted earnings per share, weighted average common shares outstanding do not include stock options and restricted stock awards with an exercise price inclusive of unrecognized compensation expense which exceeded the average fair market value of the Company's common stock for the period, as the effect would be anti-dilutive. The Company has excluded 0.1 million incremental shares attributable to restricted stock, restricted stock units and outstanding stock options for the three months ended March 31, 2008 as their effect would be anti-dilutive. In addition, 4.0 million and 3.9 million shares of common stock for the assumed conversion of the Company's convertible debt for the three months ended March 31, 2008 and 2007, respectively, computed using the if converted method, were excluded from the computation of diluted earnings per share as the effect of conversion would be anti-dilutive. These stock options, restricted stock awards, and conversions could, however, become dilutive in future periods.

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

A reconciliation of net income and shares used in computing basic and diluted earnings per share follows:

	Three months ended March 31,	
	2008	2007
	(In thousands, except per share data)	
Income (loss) available to common stockholders	\$ (11,081)	\$ 2,672
Weighted average common shares outstanding used in computing basic net income (loss) per share	102,447	101,492
Incremental shares		929
Weighted average common shares outstanding used in computing diluted net income (loss) per share	102,447	102,421
Net income (loss) per share		
Basic	\$ (0.11)	\$ 0.03
Diluted	(0.11)	0.03

### Note 4. Comprehensive Income

The components of comprehensive income follow:

	Three months ended March 31,	
	2008	2007
	(in thousands)	
Net income (loss)	\$ (11,081)	\$ 2,672
Other comprehensive income		
Foreign currency translation adjustments	18,316	1,125
Unrealized gain on marketable securities		2
Comprehensive income	\$ 7,235	\$ 3,799

### Note 5. Inventories

The components of inventories follow:

	March 31, 2008	December 31, 2007
		(in thousands)
Raw materials	\$ 99,009	\$ 95,289
Work-in-process	53,716	41,018
Finished goods (completed systems)	33,278	32,971
Total	\$ 186,003	\$ 169,278

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Approximately \$89.3 million and \$75.9 million of inventory as of March 31, 2008 and December 31, 2007, respectively, relates to the Optima product family.

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Effective January 1, 2008, the Company refined its methodology to more accurately estimate excess inventory amounts on a global basis. Under the previous methodology, the Company would have been required to reserve approximately \$1.1 million in excess amounts.

### Note 6. Restructuring Charges

In October 2007, the Company implemented a reduction in force related to planned actions taken by management to control costs and improve the focus of its operations in order to sustain future profitability and conserve cash. This reduction in force is expected to result in a total charge to expense of approximately \$2.9 million related to separation and outplacement costs, of which \$2.5 million was recorded in 2007 and \$0.1 million was recorded in the period ended March 31, 2008. The remaining \$0.3 million will be recorded in the remainder of 2008. A total of \$2.3 million has been paid through March 31, 2008. Substantially all payments related to these actions are expected to be completed in 2008.

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

	<u>(in thousands)</u>
Balance at December 31, 2007	\$ 916
Restructuring expense	51
Cash payments	(742)
	<u>          </u>
Balance at March 31, 2008	\$ 225
	<u>          </u>

### Note 7. Product Warranty

The Company offers a one to three year warranty for all of its products, 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. Revenue for non-standard warranty is recognized ratably over the applicable warranty period. 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.

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

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

	Three months ended March 31,	
	2008	2007
	(in thousands)	
Balance at December 31	\$ 6,245	\$ 6,472
Warranties issued during the period	858	1,136
Settlements made during the period	(1,689)	(1,447)
Changes in liability for pre-existing warranties during the period	12	(297)
	\$ 5,426	\$ 5,864
Amount classified as current	\$ 4,513	\$ 4,609
Amount classified as long-term	913	1,255
	\$ 5,426	\$ 5,864

### Note 8. Convertible Subordinated Debt

In January 2002, the Company completed an offering of \$125 million of 4.25% Convertible Subordinated Notes due January 15, 2007 (the "Old Notes").

On May 2, 2006, the Company entered into an exchange and purchase agreement pursuant to which the holder of an aggregate of approximately \$50.8 million of the Old Notes agreed to exchange its Old Notes for \$50.8 million in aggregate principal amount of the Company's newly issued 4.25% Convertible Senior Subordinated Notes due January 15, 2009 (the "New Notes"), plus accrued and unpaid interest on the Old Notes through but excluding May 2, 2006, the closing date of the exchange. In addition, the Company issued an additional \$24.2 million of New Notes, resulting in an aggregate of \$75 million of New Notes outstanding.

The New Notes are unsecured senior indebtedness of the Company and bear interest at the rate of 4.25% per annum. Interest is payable on January 15 and July 15 of each year, commencing July 15, 2006. The New Notes mature on January 15, 2009. At maturity, the Company is required to repay the outstanding principal of the New Notes, plus a maturity premium of 11.125% of such principal, resulting in an effective annual yield to maturity of approximately 8.0%.

The principal amount of the New Notes, together with the accreted portion of the maturity premium, which increases over the term of the notes, as of the conversion date, are convertible at the option of the holder, at any time on or prior to maturity, into shares of the Company's common stock at a conversion price equal to \$20.00 per share, which also was the conversion price of the Old Notes, subject to adjustment in certain circumstances. In addition, debt issuance costs of approximately \$0.2 million related to the New Notes are being amortized to interest expense over the term of the New Notes.

On January 15, 2007, the Company paid \$74.2 million to redeem the remaining Old Notes.

See Note 1 and Note 12 for discussion of liquidity and financing alternatives.

**Note 9. Income Taxes**

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

**Note 10. Significant Customers**

In the three months ended March 31, 2008, one customer accounted for approximately 24% of revenue. In the three months ended March 31, 2007, two customers accounted for approximately 19% and 14% of revenue, respectively. For the three months ended March 31, 2008 and 2007, no other customer accounted for more than 10% of revenue.

**Note 11. Contingencies**

**Litigation**

The Company is not presently a party to any litigation that it believes might have a material adverse effect on its business operations. The Company is, from time to time, a party to litigation that arises in the normal course of its business operations. Pending matters that arose outside of the ordinary course of business and which had developments since January 1, 2008 are:

Two purported class actions were filed against the Company in connection with proposals made by Sumitomo Heavy Industries, Ltd. in 2008 to acquire the outstanding common stock of the Company. We believe each of these cases is without merit and continue to defend against them vigorously.

On or about February 11, 2008, Martin Meltzer filed a purported shareholder class action complaint in Massachusetts Superior Court (Civil Action No. 08-0692-E), naming as defendants the Company, its current Directors and a former Director. The complaint alleges that the Company and its Board of Directors breached their fiduciary duties to Axcelis shareholders by failing to properly consider the February 11, 2008 unsolicited offer by Sumitomo Heavy Industries Ltd. to purchase all of the outstanding stock of the Company for \$5.20 per share. The complaint seeks an order from the Court directing the Company and its Board of Directors to "give due consideration to any proposed business combination" to maximize shareholder value, while ensuring that no conflicts of interest exist. The litigation is in a preliminary stage.

On or about February 28, 2008, Shirley Simon filed a purported shareholder class action complaint in Delaware Chancery Court (Case No. 3582), naming as defendants the Company and its current Directors. The complaint alleges that the Company and its Board of Directors breached their fiduciary duties to Axcelis shareholders by failing to properly consider the February 11, 2008 unsolicited offer by Sumitomo Heavy Industries Ltd. to purchase all of the outstanding stock of the Company for \$5.20 per share, and subsequently rejecting that offer. The complaint seeks an order from the Court directing the Company and its Board of Directors to cooperate with any person or entity, including Sumitomo that proposes a merger, acquisition or other transaction that would maximize shareholder value, while ensuring that no conflicts of interest exist. The complaint also seeks to have the defendants other than the Company, pay damages suffered to the class as a result of their alleged breaches of fiduciary duty. A motion to dismiss and accompanying brief were filed by Axcelis on March 26, 2008. On April 30, 2008, the plaintiffs amended their complaint to cover the proposal made by Sumitomo on March 10, 2008 and other matters relating to the annual meeting of stockholders held on May 1, 2008.

On April 23, 2008, Varian Semiconductor Associates, Inc. filed a complaint in Federal District Court in Massachusetts claiming that Axcelis' "Optima products" infringe a Varian patent that was

re-issued in January 2008. The complaint was served on April 28, 2008. Axcelis deems this lawsuit to be without merit and intends to defend its position to the fullest extent necessary.

### **Indemnifications**

The Company's system sales agreements typically include provisions under which the Company agrees to take certain actions, provide certain remedies and 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 12. Subsequent Events**

On April 23, 2008, the Company entered into a revolving credit facility (the "Facility") with a bank that provides for borrowings up to the lesser of (A) \$50 million or (B) specified percentages of the amounts of qualifying accounts receivable and inventory (approximately \$28 million at the date of execution). The underlying agreement contains financial covenants which limit the amounts of net loss the Company can incur in the second and third quarters of 2008 and specify that the Company must report net income in the fourth quarter of 2008 and thereafter. The Company's current forecast for the second quarter of 2008 indicates that it will not meet the financial covenant. The Company does expect to achieve compliance in the fourth quarter of 2008. If the Company is not able to meet the financial covenants, it may not be able to borrow against the facility. Axcelis expects to use the credit facility for working capital and for general corporate purposes.

In connection with the credit facility, the Company also entered into a receivables purchase facility with Silicon Valley Bank. Silicon Valley Bank may purchase up to \$20 million of receivables from Axcelis; provided that the total amount outstanding under the receivables purchase facility and credit facility does not exceed \$50 million. The receivables purchase facility is secured by the same collateral as the credit facility. Axcelis expects to use the receivables purchase facility for working capital and for general corporate purposes.

The credit facility matures on April 23, 2010, when all amounts will be due and payable in full. The receivables purchase facility also terminates on April 23, 2010.

See Note 1 for discussion of liquidity.

### **Note 13. Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurement*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 6, 2008, the FASB issued FASB Staff Position (FSP) 157-b, which delayed the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 and FSP 157-b are effective for financial statements issued for fiscal years beginning after November 15, 2007. We have elected a partial deferral of SFAS No. 157 under the provisions of FSP 157-b related to the measurement of fair value used when evaluating goodwill, other intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. The impact of partially adopting SFAS No. 157 effective January 1, 2008 was not material to our consolidated financial statements.

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115*, which permits but does not require us to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. As we have not elected to fair value any of our financial instruments under the provisions of SFAS No. 159, the adoption of this statement will not have any impact to our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R) *Business Combinations*. This statement applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. This statement applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. It does not apply to 1) the formation of a joint venture; 2) the acquisition of an asset or a group of assets that does not constitute a business; 3) a combination between entities or businesses under common control; 4) a combination between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The effective date of this statement is the same as that of the related SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. The adoption of SFAS No. 141(R) is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment to ARB No. 51*. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this statement is the same as that of the related SFAS No. 141(R). The adoption of SFAS No. 160 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

### **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" 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 those appearing 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.

#### **Overview**

Axcelis Technologies, Inc. ("Axcelis," "we," "us," or "our"), is a producer of ion implantation and dry strip equipment used in the fabrication of semiconductors in the United States, Europe and Asia.



In addition, we provide extensive aftermarket service and support, including spare parts, equipment upgrades, and maintenance services. We own 50% of the equity of a joint venture known as SEN Corporation, an SHI and Axcelis Company, or "SEN," with Sumitomo Heavy Industries, Ltd. ("SHI") in Japan. SEN licenses technology from us relating to the manufacture of specified ion implantation products and has exclusive rights to manufacture and sell these products in the territory of Japan. SEN is the leading producer of ion implantation equipment in Japan.

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 revenues and gross margins, to the extent affected by increases or decreases in volume, could fluctuate from year to year and period to period. The industry experienced a downturn beginning in the second half of 2007, which continued into 2008. Our gross margins are also affected by the introduction of new products. We typically become more efficient in manufacturing products as they mature. Our operating expense base is largely fixed and does not vary significantly with changes in volume. Therefore, we could experience fluctuations in operating results and cash flows depending on our revenues as driven by the level of capital expenditures by semiconductor manufacturers.

The sizable expense of building, upgrading or expanding a semiconductor fabrication facility is increasingly causing semiconductor companies to contract with foundries to manufacture their semiconductors. In addition, consolidation and partnering within the semiconductor manufacturing industry is increasing. We expect these trends to continue to reduce the number of our potential customers. This growing concentration of Axcelis' customers may increase competitive pricing as higher percentages of our total revenues are tied to the buying decisions of a particular customer or a small number of customers.

Beginning in 2004, most customers shifted from multi wafer tools to single wafer tools for high current ion implant applications. Because we did not have a single wafer high current product, we have experienced a significant loss of market share which we have yet to regain. We introduced our single wafer Optima HD (for high current applications) product in 2006 and have begun to gain traction with this tool at a number of customers through evaluation arrangements. During the three months ended March 31, 2008, we recognized approximately \$9.9 million to revenue on sales of the Optima HD.

Our single wafer tool for high energy ion implant applications, the Optima XE, was released in the fourth quarter of 2007. We shipped the first Optima XE in May 2008. We expect the Optima XE to allow us to maintain a leading market share in high energy applications moving forward.

As of March 31, 2008, total amounts included in inventory, evaluation tools (classified as a component of inventory on the balance sheet) and other assets related to our investment in the Optima product line were approximately \$116.8 million. As Optima tools shipped in 2007 continue to convert into revenue in 2008, we expect a reduction in these amounts.

Operating results for the current periods presented are not necessarily indicative of the results that may be expected for subsequent interim periods or for the year 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 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, intangibles, accounts receivable, inventory and warranty obligations. Management bases its estimates 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.

The critical accounting estimates are those that we believe are the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. As of March 31, 2008 there have been no material changes to the critical accounting estimates as described in our Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

## Results of Operations

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

	Three months ended March 31,	
	2008	2007
Revenue		
Product	82.2%	82.8%
Service	16.5	15.1
Royalties, primarily from SEN	1.3	2.1
	<u>100.0</u>	<u>100.0</u>
Cost of revenue		
Product	56.5	48.9
Service	9.1	8.8
	<u>65.6</u>	<u>57.7</u>
Gross profit	34.4	42.3
Other costs and expenses		
Research and development	19.9	18.7
Sales and marketing	14.0	13.3
General and administrative	11.6	10.7
Amortization of intangible assets	0.8	0.7
Restructuring charges	0.1	
	<u>46.3</u>	<u>43.4</u>
Loss from operations	(11.9)	(1.1)
Other income (expense)		
Equity income of SEN	0.0	4.8
Interest income	0.8	1.5
Interest expense	(1.9)	(1.7)
Other-net	0.4	
	<u>0.7</u>	<u>4.6</u>
Income (loss) before income taxes	(12.6)	3.5
Income taxes	0.5	0.8
	<u>(13.1)%</u>	<u>2.7%</u>
Net income (loss)		



**Three months ended March 31, 2008 in comparison to the three months ended March 31, 2007**

**Revenue**

*Product*

Product revenue, which includes systems sales, sales of spare parts and product upgrades was \$69.8 million, or 82.2% of revenue for the three months ended March 31, 2008, compared with \$80.7 million, or 82.8% of revenue for the three months ended March 31, 2007. Product revenue levels in 2007 and 2008 have been impacted by the Company's loss of high current market share. The decline in product revenue in the three month period ended March 31, 2008 is attributable to a weakening semiconductor market and a related decrease in capital spending by semiconductor manufacturers. In addition a decrease in capacity expansion at 200mm manufacturing facilities (a portion of which relates to the overall decline in the semiconductor capital equipment market) has decreased revenue from system sales by \$3.0 million for the three month period ended March 31, 2008.

A portion of the Company's revenue from system sales is deferred until installation and other services related to future deliverables are performed. The total amount of deferred revenue at March 31, 2008 and 2007 was \$25.8 million and \$38.4 million, respectively.

*Service*

Service revenue, which includes the labor component of maintenance and service contracts and service hours provided by on-site service personnel, was \$14.0 million, or 16.5% of revenue for the three months ended March 31, 2008, compared with \$14.7 million, or 15.1% of revenue, for the three months ended March 31, 2007. The decline in service revenue is a result of lower capacity utilization at customer manufacturing facilities, which affects the need for equipment service.

*Ion Implant*

The largest portion of the Company's product and service revenues are derived from ion implantation products and services, which typically average from 70% to 80% of total revenues. During the three months ended March 31, 2008, revenue from sales of ion implantation products and service accounted for \$68.8 million, or 81.5% of total revenue, compared with \$74.1 million, or 76.0%, of total revenue in the three months ended March 31, 2007. The remainder of the Company's revenue derives from the sale of products and services relating to dry strip and other processing equipment.

*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 and service contracts and service hours as the "aftermarket" business. The revenue from our aftermarket business was \$40.6 million for the three month period ended March 31, 2008, compared to \$44.4 million for the corresponding period of the preceding year. 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.

*Royalties*

Royalty revenue was \$1.1 million, or 1.3% of revenue for the three months ended March 31, 2008, compared with \$2.1 million, or 2.1% of revenue for the three months ended March 31, 2007. Royalties are primarily earned under the terms of our license agreement with SEN. Revenue changes are mainly attributable to fluctuations in SEN sales volume based on demand for equipment by Japanese semiconductor manufacturers and the timing of shipments in Japan.

## **Gross Profit**

### *Product*

Gross profit from product revenue was 31.2% for the three months ended March 31, 2008, compared to 40.9% for the three months ended March 31, 2007. The decrease in gross profit from product revenues is attributable to lower margins on new product revenue recognized in the quarter (approximately 8.4%) along with lower margins and an unfavorable mix of parts and upgrade revenues (approximately 1.3%). Revenue recognized on new products generally carries lower margins than mature products due to higher initial material costs and labor inefficiencies.

### *Service*

Gross profit from service revenue was 45.0% for the three months ended March 31, 2008, compared to 41.8% for the three months ended March 31, 2007. The increase in gross profit for the three month period ended March 31, 2008 is attributable to a higher mix of billable service labor.

## **Research and Development**

Research and development expense was \$16.9 million in the three months ended March 31, 2008, a decrease of \$1.3 million, or 7.1%, compared with \$18.2 million in the three months ended March 31, 2007. The decrease was driven primarily by decreased professional fee expenses (\$1.1 million) and decreased payroll costs (\$0.9 million) partially offset by increased development asset amortization and depreciation costs (\$0.4 million) and development material costs (\$0.2 million). We expect research and development spending to decline slightly throughout 2008 as development costs for new products drop off and are replaced by a lower level of spending for continuous improvement.

Research and development expense was attributable to the following activities through the first quarter of 2008: 41% for new product development, 42% for improvement of existing products, and 17% for product testing.

## **Sales and Marketing**

Sales and Marketing expense was \$11.9 million in the three months ended March 31, 2008, a decrease of \$1.0 million, or 7.8%, compared with \$12.9 million in the three months ended March 31, 2007. The decrease was driven primarily by an anticipated decrease in costs related to evaluation system support for our Optima platform (\$0.4 million), decreased travel costs (\$0.4 million) and lower commissions expense (\$0.2 million).

## **General and Administrative**

General and administrative expense was \$9.8 million in the three months ended March 31, 2008, a decrease of \$0.7 million, or 6.7%, compared with \$10.5 million in the three months ended March 31, 2007. The decrease was driven primarily by lower lease, travel, utilities, sales tax and insurance expense (\$0.2 million), lower payroll related costs (\$0.2 million) and lower stock compensation costs (\$0.1 million).

## **Other Income (Expense)**

No equity income was attributable to SEN for the three months ended March 31, 2008. This is compared to equity income attributable to SEN of \$4.7 million for the three months ended March 31, 2007. Fluctuations in equity income from SEN reflect changes in its sales volume and net income resulting from demand changes in the Japanese semiconductor market, and the timing of shipments in Japan.

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Interest income of \$0.7 million for the three months ended March 31, 2008 primarily relates to interest earned on cash, cash equivalents and short-term investments. Interest income decreased by \$0.8 million from the three months ended March 31, 2007 due primarily to lower average cash balances.

Interest expense of \$1.6 million for the three months ended March 31, 2008, a decrease of \$0.1 million from the three months ended March 31, 2007, relates primarily to outstanding convertible senior subordinated notes, which have an effective yield to maturity of 8%.

### Income Taxes

Income tax expense was \$0.4 million and \$0.7 million for the three months ended March 31, 2008 and 2007, respectively. Income tax expense relates principally to operating results of foreign entities in jurisdictions, principally in Asia, where we earn taxable income. We have significant net operating loss carryforwards in the United States and certain foreign jurisdictions, principally Europe, and, as a result, we do not currently pay significant income taxes in those jurisdictions and we do not recognize the tax benefit for such losses. Accordingly, our effective income tax rate is not meaningful.

### Liquidity and Capital Resources

Cash, cash equivalents, and marketable securities at March 31, 2008 were \$68.2 million, compared with \$83.9 million at December 31, 2007. The \$15.7 million decrease in cash, cash equivalents, and short-term investments is mainly attributable to cash used by operations (\$12.3 million) and capital expenditures (\$1.2 million).

Capital expenditures were \$1.2 million and \$3.6 million for the three months ended March 31, 2008 and 2007, respectively. We have no significant capital projects planned for 2008 and total capital expenditures for 2008 are projected to be less than \$5.0 million. Future capital expenditures beyond 2008 will depend on a number of factors, including the timing and rate of expansion of our business.

We have net operating loss and tax credit carryforwards the tax effect of which aggregate \$86.7 million at December 31, 2007. These carryforwards, which expire principally between 2021 and 2027, are available to reduce future income tax liabilities in the United States and certain foreign jurisdictions.

In 2006, Axcelis and SHI agreed upon an annual dividend relating to SEN's fiscal year ended March 31, 2006. The two shareholders instructed SEN to dividend 40% of SEN's net earnings for that year. On January 31, 2007, Axcelis received a payment of approximately \$5.7 million representing its 50% share of the dividend. In 2007 the Company entered into an agreement with SHI pursuant to which SEN will be instructed to dividend 40% of its net income annually. On July 31, 2007 the Company received a dividend of \$6.7 million for SEN's fiscal year ended March 31, 2007. The Company expects to receive a dividend of approximately \$2 million in July 2008 for SEN's fiscal year ended March 31, 2008.

As discussed in Note 8 to the consolidated financial statements accompanying this Form 10-Q, on May 2, 2006, we entered into an exchange and purchase agreement pursuant to which the holder of an aggregate of approximately \$50.8 million of our existing 4.25% Convertible Subordinated Notes due January 15, 2007 (the "Old Notes"), agreed to exchange its Old Notes for \$50.8 million in aggregate principal amount of our newly issued 4.25% Convertible Senior Subordinated Notes due January 15, 2009 (the "New Notes"), plus accrued and unpaid interest on the Old Notes through but excluding May 2, 2006, the closing date of the exchange. At maturity, the Company is required to repay the outstanding principal of the New Notes, plus a maturity premium of 11.125% of such principal, resulting in an effective annual yield to maturity of approximately 8.0%. In addition, we issued an additional \$24.2 million of New Notes, resulting in an aggregate of \$75 million of New Notes

outstanding. We repaid the remaining \$74.2 million of outstanding Old Notes in January 2007. Depending on cash flows for the remainder of 2008, the Company may look for alternatives to refinance the New Notes when they become payable in January 2009.

Axcelis' liquidity is affected by many factors. Some of these factors are based on normal operations of the business, including acceptance of the Optima product line, and others relate to the uncertainties of global economies and the semiconductor equipment industry. As of March 31, 2008, the Company had approximately \$68.2 million of cash and cash equivalents. During the first quarter of 2008, the Company experienced negative cash flows from operations and anticipates continued cash outflows in the second quarter of 2008. Furthermore, as of March 31, 2008, the Company's New Notes (see Note 8), due January 15, 2009, were reclassified to current liabilities. On April 23, 2008, the Company entered into a revolving credit facility (the "facility") with a bank that provides for borrowings up to the lesser of (A) \$50 million or (B) specified percentages of the amounts of qualifying accounts receivable and inventory (approximately \$28 million on the date of execution). Presently, the Company's 2008 forecast does not anticipate drawing down on the facility. The underlying agreement contains financial covenants that limit the amounts of net loss the Company can incur in the second and third quarters of 2008 and specify that the Company must report net income in the fourth quarter of 2008 and thereafter. The Company's current forecast for the second quarter of 2008 indicates that it will not meet the financial covenant. The Company does expect to achieve compliance in the fourth quarter of 2008. Should the Company not be able to meet these financial covenants, it may not be able to borrow against the facility. The Company is also negotiating a sale-leaseback of the Company's headquarters and manufacturing facility located in Beverly, Massachusetts. However, there can be no assurance that the sale-leaseback transaction will be completed.

The Company expects that existing cash and cash equivalents and expected positive cash flow for the remainder of 2008, based primarily on current expectations of customer ordering patterns, coupled with planned financing events, will be sufficient to satisfy the Company's anticipated cash requirements for the remainder of 2008 and beyond. Should the Company not be able to obtain financing with acceptable terms and/or current estimates for anticipated cash flow in 2008 prove incorrect, the Company's management may seek alternative strategies intended to improve the Company's cash position. These strategies could include initiating further cost reduction efforts, seeking improvements in working capital management such as seeking additional financing, and reducing or delaying capital expenditures.

We have outstanding standby letters of credit, bank guarantees and surety bonds in the amount of \$24.4 million to support certain operating lease obligations, workers' compensation insurance, and certain value added tax claims in Europe. At March 31, 2008, \$18.3 million of cash was pledged as collateral for certain outstanding standby letters of credit and bank guarantees, and is reflected as restricted cash on the consolidated balance sheet. We also have foreign exchange contracts used to hedge amounts receivable from SEN (\$1.3 million at March 31, 2008).

## Outlook

Our performance is directly related to semiconductor manufacturers' levels of capital expenditures to open new fabrication facilities and expand existing ones, our successful introduction of new products (such as the Optima HD), as well as operational improvements we have implemented over the past several years. The level of capital expenditures by these manufacturers depends upon the current and anticipated market demand for semiconductors and the products utilizing them, the available manufacturing capacity in manufacturers' fabrication facilities, and the ability of manufacturers to increase productivity in existing facilities without incurring additional capital expenditures. However, we expect continued market weakness during the balance of 2008.

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

On May 7, 2008, we announced that Axcelis' revenues for the second quarter of 2008 are forecast in the range of \$75 million to \$90 million. We expect results of operations will be a loss per share of approximately \$0.11 to \$0.15.

It is difficult to predict our customers' capital spending plans because they can change very quickly. At our current sales level, each sale, or failure to make a sale, could have a material effect on our results of operations in a particular quarter.

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

As of March 31, 2008, there have been no material changes to the quantitative and qualitative information about market risk disclosed in Item 7A to our Annual Report on Form 10-K for the year ended December 31, 2007.

### **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 quarterly 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 our first quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company is not presently a party to any litigation that it believes might have a material adverse effect on its business operations. The Company is, from time to time, a party to litigation that arises in the normal course of its business operations. Pending matters that arose outside of the ordinary course of business and which had developments since January 1, 2008 are:

Two purported class actions were filed against the Company in connection with proposals made by Sumitomo Heavy Industries, Ltd. in 2008 to acquire the outstanding common stock of the Company. We believe each of these cases is without merit and continue to defend against them vigorously.

On or about February 11, 2008, Martin Meltzer filed a purported shareholder class action complaint in Massachusetts Superior Court (Civil Action No. 08-0692-E), naming as defendants the Company, its current Directors and a former Director. The complaint alleges that the Company and its Board of Directors breached their fiduciary duties to Axcelis shareholders by failing to properly consider the February 11, 2008 unsolicited offer by Sumitomo Heavy Industries Ltd. to purchase all of the outstanding stock of the Company for \$5.20 per share. The complaint seeks an order from the Court directing the Company and its Board of Directors to "give due consideration to any proposed business combination" to maximize shareholder value, while ensuring that no conflicts of interest exist. The litigation is in a preliminary stage.

On or about February 28, 2008, Shirley Simon filed a purported shareholder class action complaint in Delaware Chancery Court (Case No. 3582), naming as defendants the Company and its current Directors. The complaint alleges that the Company and its Board of Directors breached their fiduciary duties to Axcelis shareholders by failing to properly consider the February 11, 2008 unsolicited offer by Sumitomo Heavy Industries Ltd. to purchase all of the outstanding stock of the Company for \$5.20 per share, and subsequently rejecting that offer. The complaint seeks an order from the Court directing the Company and its Board of Directors to cooperate with any person or entity, including Sumitomo that proposes a merger, acquisition or other transaction that would maximize shareholder value, while ensuring that no conflicts of interest exist. The complaint also seeks to have the defendants other than the Company, pay damages suffered to the class as a result of their alleged breaches of fiduciary duty. A motion to dismiss and accompanying brief were filed by Axcelis on March 26, 2008. On April 30, 2008, the plaintiffs amended their complaint to cover the proposal made by Sumitomo on March 10, 2008 and other matters relating to the annual meeting of stockholders held on May 1, 2008.

On April 23, 2008, Varian Semiconductor Associates, Inc. filed a complaint in Federal District Court in Massachusetts claiming that Axcelis' "Optima products" infringe a Varian patent that was re-issued in January 2008. The complaint was served on April 28, 2008. Axcelis deems this lawsuit to be without merit and intends to defend its position to the fullest extent necessary.

**Item 1A. Risk Factors.**

As of March 31, 2008, there have been no material changes to the risk factors disclosed in Item 1A to our annual report on Form 10-K for the year ended December 31, 2007.

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

None.

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

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K:

Exhibit No	Description
3.1	Amended and Restated Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1 (Registration No. 333-36330).
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 quarter ended June 30, 2007, filed with the Commission on August 9, 2007.
3.3	Certificate of Designation of Series A Participating Preferred Stock, filed with the Secretary of State of Delaware on July 5, 2000. Incorporated by reference to Exhibit 3.3 of the Company's Form 10-K for the year ended December 31, 2000, filed with the Commission on March 30, 2001.
10.1	Loan and Security Agreement dated as of April 23, 2008 between Axcelis Technologies, Inc. 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 May 12, 2008. 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 May 12, 2008. 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 May 12, 2008. 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 May 12, 2008. Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

AXCELIS TECHNOLOGIES, INC.

DATED: May 12, 2008

/s/ STEPHEN G. BASSETT

---

By: Stephen G. Bassett  
Executive Vice President and Chief Financial Officer  
Duly Authorized Officer and Principal Financial Officer  
24

---

QuickLinks

PART I FINANCIAL INFORMATION

PART 1 FINANCIAL INFORMATION

[Axcelis Technologies, Inc. Consolidated Statements of Operations \(In thousands, except per share amounts\) \(Unaudited\)](#)

[Axcelis Technologies, Inc. Consolidated Balance Sheets \(In thousands\) \(Unaudited\)](#)

[Axcelis Technologies, Inc. Consolidated Statements of Cash Flows \(In thousands\) \(Unaudited\)](#)

[Axcelis Technologies, Inc. Notes To Consolidated Financial Statements \(Unaudited\) \(All tabular amounts in thousands, except per share amounts\)](#)

PART II OTHER INFORMATION

SIGNATURES