

AXCELIS TECHNOLOGIES INC

Form 10-Q

August 06, 2010

[Table of Contents](#)

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 June 30, 2010

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.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

34-1818596
(IRS Employer
Identification No.)

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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, of 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 August 4, 2010 there were 104,649,926 shares of the registrant's common stock outstanding.

Table of Contents

Table of Contents

	<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	3
	<u>Consolidated Statement of Operations for the three and six months ended June 30, 2010 and 2009</u>	3
	<u>Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009</u>	4
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009</u>	5
	<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
	<u>Overview</u>	11
	<u>Critical Accounting Estimates</u>	11
	<u>Results of Operations</u>	12
	<u>Liquidity and Capital Resources</u>	15
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
<u>Item 4.</u>	<u>Controls and Procedures</u>	16
	<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	17
<u>Item 1A.</u>	<u>Risk Factors</u>	17
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	17
<u>Item 4.</u>	<u>(Removed and Reserved)</u>	17
<u>Item 5.</u>	<u>Other Information</u>	17
<u>Item 6.</u>	<u>Exhibits</u>	17

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)**

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue				
Product	\$ 50,693	\$ 25,764	\$ 90,971	\$ 43,498
Service	7,510	7,611	15,732	15,395
Royalties from SEN		175		385
	58,203	33,550	106,703	59,278
Cost of revenue				
Product	33,690	22,658	64,010	40,890
Service	4,645	5,006	9,818	9,495
	38,335	27,664	73,828	50,385
Gross profit	19,868	5,886	32,875	8,893
Operating expenses				
Research and development	9,477	7,752	18,610	17,287
Sales and marketing	6,606	6,285	13,210	13,164
General and administrative	7,464	8,531	15,164	19,201
Restructuring charges		4,114		5,098
	23,547	26,682	46,984	54,750
Loss from operations	(3,679)	(20,796)	(14,109)	(45,857)
Other income (expense)				
Gain on sale of SEN				1,080
Equity loss of SEN				(3,238)
Interest income	25	30	54	93
Interest expense				(1,676)
Other, net	342	(1,311)	(65)	(1,516)
	367	(1,281)	(11)	(5,257)
Loss before income taxes	(3,312)	(22,077)	(14,120)	(51,114)
Income taxes	1,217	302	1,510	420
Net loss	\$ (4,529)	\$ (22,379)	\$ (15,630)	\$ (51,534)

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Net loss per share

Basic and diluted net loss per share	\$	(0.04)	\$	(0.22)	\$	(0.15)	\$	(0.50)
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Shares used in computing basic and diluted net
loss per share

Weighted average common shares		104,170		103,286		104,143		103,285
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See accompanying Notes to these Consolidated Financial Statements

Table of Contents

Axcelis Technologies, Inc.

Consolidated Balance Sheets

(In thousands)

(Unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 47,886	\$ 45,020
Restricted cash	4,047	4,918
Accounts receivable, net	34,264	19,094
Inventories, net	97,824	114,558
Prepaid expenses and other current assets	14,877	10,016
Total current assets	198,898	193,606
Property, plant and equipment, net	39,521	40,868
Long-term restricted cash		2,245
Other assets	10,255	13,884
	\$ 248,674	\$ 250,603
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 17,854	\$ 9,680
Accrued compensation	10,402	9,267
Warranty	974	638
Income taxes	1,367	1,499
Deferred revenue	10,097	5,127
Other current liabilities	4,424	3,546
Total current liabilities	45,118	29,757
Long-term deferred revenue	895	563
Other long-term liabilities	3,630	3,884
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock		
Common stock	104	104
Additional paid-in capital	490,686	488,321
Treasury stock	(1,218)	(1,218)
Accumulated deficit	(291,577)	(275,947)
Accumulated other comprehensive income	1,036	5,139
	199,031	216,399
	\$ 248,674	\$ 250,603

See accompanying Notes to these Consolidated Financial Statements

Table of Contents

Axcelis Technologies, Inc.

Consolidated Statements of Cash Flow

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities		
Net loss	\$ (15,630)	\$ (51,534)
Adjustments to reconcile net loss to net cash used for operating activities		
Undistributed loss of SEN		3,238
Depreciation and amortization	3,711	3,727
Gain on sale of SEN		(1,080)
Accretion of premium on convertible debt		133
Stock-based compensation expense	1,568	1,316
Provision for excess inventory	1,331	7,492
Changes in operating assets & liabilities		
Accounts receivable	(16,011)	4,117
Inventories	13,844	9,229
Prepaid expenses and other current assets	(5,051)	5,956
Accounts payable & other current liabilities	11,502	(5,932)
Deferred revenue	5,366	(5,072)
Income taxes	(110)	139
Other assets and liabilities	1,673	(401)
Net cash provided by (used for) operating activities	2,193	(28,672)
Cash flows from investing activities		
Expenditures for property, plant, and equipment	(480)	(354)
Decrease in restricted cash	3,116	1,741
Proceeds from sale of SEN		132,847
Payments related to sale of SEN		(10,590)
Net cash provided by investing activities	2,636	123,644
Cash flows from financing activities		
Repayment of convertible debt		(83,344)
Financing fees and other expenses	(514)	
Proceeds from exercise of stock options	55	
Proceeds from Employee Stock Purchase Plan	206	65
Net cash used for financing activities	(253)	(83,279)
Effect of exchange rate changes on cash	(1,710)	384
Net increase in cash and cash equivalents	2,866	12,077
Cash and cash equivalents at beginning of period	45,020	37,694
Cash and cash equivalents at end of period	\$ 47,886	\$ 49,771

See accompanying Notes to these Consolidated Financial Statements

Table of Contents

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.

Until March 30, 2009, the Company owned 50% of the equity of a joint venture with Sumitomo Heavy Industries, Ltd. (SHI) in Japan. Detailed information about the Company s investment in the joint venture is provided in Note 2.

During the six months ended June 30, 2010, the Company experienced positive cash flows from operations of \$2.2 million, which reflects improved market conditions and working capital improvements. Cash and cash equivalents at June 30, 2010 were \$47.9 million, compared to \$34.8 million at March 31, 2010. The Company s 2010 plan includes improvement in revenue and operating cash flow and reduction in working capital as compared to 2009. The Company believes that based on its current market, revenue and expense forecasts, its existing cash and cash equivalents will be sufficient to satisfy its anticipated cash requirements. During the six months ended June 30, 2010 the Company continued to benefit from improving market conditions and increased capacity utilization at customers manufacturing facilities. Industry forecasts project this positive trend to continue throughout the remainder of 2010 and into 2011.

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, 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, 2009 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, 2009.

Note 2. Sale of Investment in SEN

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Until March 30, 2009, the Company owned 50% of the equity of a joint venture with Sumitomo Heavy Industries, Ltd. (SHI) in Japan. This joint venture, which was known as SEN Corporation, an SHI and Axcelis Company (SEN), licensed technology from the Company relating to the manufacture of specified ion implantation products and had exclusive rights to manufacture and sell these products in the territory of Japan. On March 30, 2009, pursuant to a Share Purchase Agreement dated February 26, 2009, the Company sold to SHI all of the Company's common shares in SEN in exchange for a cash payment of 13 billion Yen, which resulted in proceeds of approximately \$132.8 million before advisor fees and other expenses of \$10.6 million. The sales price was determined through an arm's length negotiation. This transaction terminated all prior agreements among the three parties relating to the SEN joint venture. In addition, the arbitration with SEN initiated by Axcelis in Tokyo was dismissed.

In connection with the sale of its investment in SEN, on March 30, 2009, the Company and SEN entered into a License Agreement pursuant to which the parties have cross licensed each other to use certain patents and technical information on a non-exclusive, perpetual, royalty-free, worldwide basis, provided that the Company and SEN received sole exclusive licenses for 4 years in the U.S. and Japan, respectively. The licenses to technical information cover only technical information shared by the parties prior to the date of the license, so the license to SEN does not cover technical information relating to the Optima HD and Optima XE. The license also excludes patents relating to Axcelis' work in molecular implant and certain patents developed for the Optima HD and Optima XE. The parties provided each other with limited warranties regarding their right to grant these licenses, and indemnity with respect thereto, but disclaim any warranty regarding the validity or freedom from infringement of the licensed intellectual property. Neither party will provide any support for the

Table of Contents

other party's use of the licensed intellectual property.

The sale of the Company's investment in SEN on March 30, 2009, resulted in a gain of approximately \$1.1 million. This gain includes net proceeds of \$122.2 million (after payment of advisor fees and other costs of \$10.6 million) and cumulative foreign translation gain of \$23.5 million, previously recorded in other comprehensive income, reduced by the carrying value of the investment on the date of sale of \$144.6 million. The gain from the sale of the Company's investment in SEN is recorded in other income.

On March 30, 2009, a portion of the proceeds of the sale were used to pay off, in full, the amounts due to the holder of the Company's 4.25% Convertible Senior Subordinated Notes. See Note 8.

Note 3. 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 14 to the consolidated financial statements in the Company's 2009 Annual Report on Form 10-K.

Under Accounting Standards Codification Topic 718, the Company recognized stock-based compensation expense of \$0.8 million and \$1.6 million for the three and six months ended June 30, 2010, respectively. For the three and six months ended June 30, 2009, the Company recognized stock-based compensation expense of \$0.5 million and \$1.3 million respectively. These amounts include the impact of recognizing compensation expense related to restricted stock units, restricted stock, non-qualified stock options and stock under the ESPP.

Note 4. Net 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 additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. Because the Company has net losses for the three and six-month periods ended June 30, 2010 and 2009, any potentially dilutive common shares related to outstanding stock options, restricted stock, restricted stock units and convertible debt have been excluded from the calculation of net loss per share because the effect would be anti-dilutive.

Table of Contents**Note 5. Comprehensive Loss**

The components of comprehensive loss are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Net loss	\$ (4,529)	\$ (22,379)	\$ (15,630)	\$ (51,534)
Other comprehensive income (loss)				
Foreign currency translation adjustments	(3,336)	2,823	(4,103)	(8,966)
	\$ (7,865)	\$ (19,556)	\$ (19,733)	\$ (60,500)

Note 6. Inventories

The components of inventories are as follows:

	June 30, 2010	December 31, 2009
	(in thousands)	
Raw materials	\$ 66,637	\$ 69,661
Work in process	22,777	27,654
Finished goods (completed systems)	8,410	17,243
	\$ 97,824	\$ 114,558

When recorded, reserves reduce the carrying value of inventory to its net realizable value. The Company establishes inventory reserves when conditions exist that indicate inventory may be in excess of anticipated demand or is 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 inventory 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 June 30, 2010 and December 31, 2009, inventory is stated net of inventory reserves of \$26.6 million and \$37.0 million, respectively.

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. 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.

Table of Contents

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

	Six months ended June 30,	
	2010	2009
	(in thousands)	
Balance at December 31	\$ 726	\$ 3,530
Warranties issued during the period	1,229	388
Settlements made during the period	(919)	(1,302)
Changes in estimate of liability for pre-existing warranties during the period	11	(1,310)
Balance at June 30	\$ 1,047	\$ 1,306
Amount classified as current	\$ 974	\$ 1,251
Amount classified as long-term	73	55
Total Warranty Liability	\$ 1,047	\$ 1,306

Note 8. Financial Arrangements**Bank Credit Facility**

On March 12, 2010, the Company amended its existing revolving credit facility with a bank. The amended agreement provides for borrowings up to the lesser of \$20 million or specified percentages of the amounts of qualifying accounts receivable and inventory. The facility has certain financial covenants requiring the Company to maintain minimum levels of operating results and liquidity. Borrowings made under the facility will bear interest at the greater of 6.0% or the bank's prime rate (3.25% at June 30, 2010) plus 2.0%. The agreement will terminate on March 12, 2011. For each of the three and six month periods ended June 30, 2010 and 2009 the Company incurred fees and costs of \$0.2 million and \$0.4 million related to its revolving credit facilities.

On May 25, 2010 the Company and its lender agreed to modify a financial covenant in the revolving credit facility regarding maximum allowable quarterly losses. Based on current forecasts, the Company believes it will be in compliance with the financial covenants, as modified, throughout 2010.

Convertible Subordinated Debt

On March 30, 2009, Axcelis used a portion of the proceeds of the sale of its interest in SEN (see Note 2) to pay all amounts due (approximately \$85 million) under an Indenture between Axcelis and U.S. Bank National Association, as trustee, relating to the Company's 4.25% Convertible Senior Subordinated Notes, resulting in an extinguishment of the debt in full.

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, the effective income tax rate is not meaningful.

Note 10. Significant Customers

For the three months ended June 30, 2010, one customer accounted for approximately 16.8% of revenue. For the six months ended June 30, 2010, two customers each accounted for approximately 12.9% and 11.2% of revenue, respectively. For the three months ended June 30, 2009, three customers each accounted for approximately 12.1%, 10.2%, and 10.0% of revenue, respectively. For the six months ended June 30, 2009, one customer accounted for approximately 11.4% of revenue.

Note 11. Contingencies

Litigation

The Company is, from time to time, a party to litigation that arises in the normal course of its business operations.

Table of Contents

The Company is not presently a party to any litigation that it believes might have a material adverse effect on its business operations.

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. Recent Accounting Pronouncements

In September 2009, the FASB issued a new accounting standard to provide guidance on revenue recognition criteria for multiple-element arrangements. The new accounting standard modifies the criteria used to separate elements in a multiple-element arrangement by introducing the concept of best estimate of selling price, establishing a hierarchy of evidence for determining selling price (fair value), requiring the use of relative selling price method and prohibiting the use of the residual method to allocate arrangement consideration among units of accounting. The new accounting standard also expands the disclosure requirements for all multiple element arrangements and is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (January 1, 2011 for a calendar year-end entity). The Company is currently evaluating the impact of adopting this pronouncement.

Table of Contents

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 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. The industry experienced a downturn beginning in the second half of 2008 which extended through 2009, although signs of improvement began during the fourth quarter of 2009 and have continued through the first six months of 2010. Our gross margins are also affected by the introduction of new products. We typically become more efficient in manufacturing products as they mature. Our 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 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 pricing pressure as higher percentages of our total revenue are tied to the buying decisions of a particular customer or a small number of customers.

During the last six months of 2008 and through 2009 challenging market conditions severely limited our ability to increase sales and market share. During this period, adverse market conditions such as credit constriction, higher unemployment, lower corporate earnings, lower business investment and lower consumer spending severely impacted many technology manufacturers and significantly lowered the demand for our products. During the three and six months ended June 30, 2010, the economy and the market for our products have begun to improve. We also believe we are gaining market share with our single wafer ion implant systems for high current and high energy applications (the Optima HDx and Optima XEx), as customers are showing a higher acceptance for our technology. Our expense base is reduced from earlier periods due to cost reduction initiatives implemented in 2009 and 2008.

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 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.

Table of Contents

There has been no material change in the nature of our critical accounting estimates and judgments as described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Results of Operations

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue				
Product	87.1%	76.8%	85.3%	73.4%
Service	12.9	22.7	14.7	26.0
Royalties from SEN	0.0	0.5	0.0	0.6
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue				
Product	57.9	67.5	60.0	69.0
Service	8.0	14.9	9.2	16.0
Total cost of revenue	65.9	82.4	69.2	85.0
Gross profit	34.1	17.6	30.8	15.0
Operating expenses				