

AXCELIS TECHNOLOGIES INC

Form 10-Q

August 02, 2013

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2013

Or

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

For the transition period from            to

Commission file number 000-30941

**AXCELIS TECHNOLOGIES, INC.**

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(Exact name of registrant as specified in its charter)

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

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

**108 Cherry Hill Drive**

**Beverly, Massachusetts 01915**

(Address of principal executive offices, including zip code)

**(978) 787-4000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of July 26, 2013 there were 108,866,951 shares of the registrant's common stock outstanding.



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

|  | Three months ended |                  | Six months ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | 2013               | June 30,<br>2012 | 2013             | June 30,<br>2012 |
| Revenue  |                    |                  |                  |                  |
| Product  | \$ 40,769          | \$ 51,465        | \$ 75,220        | \$ 99,003        |
| Services   | 6,732              | 7,649            | 13,006           | 15,117           |
| Total revenue  | 47,501             | 59,114           | 88,226           | 114,120          |
| Cost of revenue  |                    |                  |                  |                  |
| Product  | 25,457             | 30,599           | 47,638           | 59,883           |
| Services   | 5,307              | 5,727            | 10,910           | 10,913           |
| Total cost of revenue                                      | 30,764             | 36,326           | 58,548           | 70,796           |
| Gross profit   | 16,737             | 22,788           | 29,678           | 43,324           |
| Operating expenses   |                    |                  |                  |                  |
| Research and development                                   | 8,503              | 10,478           | 17,709           | 22,147           |
| Sales and marketing  | 5,594              | 6,231            | 10,796           | 12,814           |
| General and administrative                                 | 6,412              | 6,488            | 13,001           | 14,287           |
| Gain on sale of dry strip assets and intellectual property | (799)              |                  | (1,167)          |                  |
| Restructuring charges                                      | 421                | 153              | 2,222            | 3,034            |
| Total operating expenses                                   | 20,131             | 23,350           | 42,561           | 52,282           |
| Loss from operations                                       | (3,394)            | (562)            | (12,883)         | (8,958)          |
| Other income (expense)                                     |                    |                  |                  |                  |
| Interest income  | 3                  | 9                | 6                | 18               |
| Interest expense   | (51)               |                  | (115)            |                  |
| Other, net   | (314)              | 551              | 580              | (373)            |
| Total other income (expense)                               | (362)              | 560              | 471              | (355)            |
| Loss before income taxes                                   | (3,756)            | (2)              | (12,412)         | (9,313)          |
| Income taxes   | 263                | 469              | 596              | 1,186            |
| Net loss   | \$ (4,019)         | \$ (471)         | \$ (13,008)      | \$ (10,499)      |

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|                    |    |        |    |        |                     |
|--------------------|----|--------|----|--------|---------------------|
| Net loss per share |    |        |    |        |                     |
| Basic and Diluted  | \$ | (0.04) | \$ | (0.00) | \$ (0.12) \$ (0.10) |

|  |  |         |  |         |                 |
|--|--|---------|--|---------|-----------------|
| Shares used in computing net loss per share      |  |         |  |         |                 |
| Basic and diluted weighted average common shares |  | 108,409 |  | 107,639 | 108,319 107,353 |

See accompanying Notes to these Consolidated Financial Statements

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**Axcelis Technologies, Inc.**

**Consolidated Statements of Comprehensive Loss**

**(In thousands)**

**(Unaudited)**

|  | <b>Three months ended</b> |                          | <b>Six months ended</b> |                          |
|--|---------------------------|--------------------------|-------------------------|--------------------------|
|  | <b>2013</b>               | <b>June 30,<br/>2012</b> | <b>2013</b>             | <b>June 30,<br/>2012</b> |
| Net loss   | \$ (4,019)                | \$ (471)                 | \$ (13,008)             | \$ (10,499)              |
| Other comprehensive income (loss):                 |                           |                          |                         |                          |
| Foreign currency translation adjustments           | 119                       | (1,469)                  | (1,959)                 | (1,413)                  |
| Amortization of actuarial losses from pension plan | 8                         |                          | 16                      |                          |
| Comprehensive loss                                 | \$ (3,892)                | \$ (1,940)               | \$ (14,951)             | \$ (11,912)              |

See accompanying Notes to these Consolidated Financial Statements

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## Axcelis Technologies, Inc.

## Consolidated Balance Sheets

(In thousands, except per share amounts)

(Unaudited)

|  | June 30,<br>2013 | December 31,<br>2012 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Current assets   |                  |                      |
| Cash and cash equivalents  | \$ 34,639        | \$ 44,986            |
| Accounts receivable, net   | 30,220           | 24,843               |
| Inventories, net   | 96,412           | 100,234              |
| Restricted cash  | 104              | 106                  |
| Prepaid expenses and other current assets  | 6,025            | 5,056                |
| Total current assets   | 167,400          | 175,225              |
| Property, plant and equipment, net   | 32,964           | 34,413               |
| Other assets   | 13,406           | 12,520               |
| Total assets   | \$ 213,770       | \$ 222,158           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                  |                      |
| Current liabilities  |                  |                      |
| Accounts payable   | \$ 16,188        | \$ 10,166            |
| Accrued compensation   | 6,559            | 7,283                |
| Warranty   | 1,419            | 1,700                |
| Income taxes   | 226              | 278                  |
| Deferred revenue   | 5,728            | 6,423                |
| Other current liabilities  | 4,432            | 3,932                |
| Total current liabilities  | 34,552           | 29,782               |
| Long-term deferred revenue   | 259              | 456                  |
| Other long-term liabilities  | 5,829            | 5,844                |
| Total liabilities  | 40,640           | 36,082               |
| Commitments and contingencies (Note 13)  |                  |                      |
| Stockholders' equity   |                  |                      |
| Preferred stock, \$0.001 par value, 30,000 shares authorized; none issued or outstanding   |                  |                      |
| Common stock, \$0.001 par value, 300,000 shares authorized; 108,772 shares issued and 108,652 shares outstanding at June 30, 2013; 108,293 shares issued and 108,173 shares outstanding at December 31, 2012 | 109              | 108                  |
| Additional paid-in capital   | 506,647          | 504,643              |
| Treasury stock, at cost, 120 shares at June 30, 2013 and December 31, 2012   | (1,218)          | (1,218)              |
| Accumulated deficit  | (335,485)        | (322,477)            |
| Accumulated other comprehensive income   | 3,077            | 5,020                |
| Total stockholders' equity   | 173,130          | 186,076              |
| Total liabilities and stockholders' equity   | \$ 213,770       | \$ 222,158           |

See accompanying Notes to these Consolidated Financial Statements





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## Axcelis Technologies, Inc.

## Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

|  | Six months ended<br>June 30, |             |
|--|------------------------------|-------------|
|  | 2013                         | 2012        |
| <b>Cash flows from operating activities</b>                                  |                              |             |
| Net loss   | \$ (13,008)                  | \$ (10,499) |
| Adjustments to reconcile net loss to net cash used for operating activities: |                              |             |
| Depreciation and amortization  | 2,719                        | 3,625       |
| Gain on sale of dry strip assets and intellectual property                   | (1,167)                      |             |
| Deferred taxes   | 52                           | 995         |
| Stock-based compensation expense   | 1,644                        | 2,010       |
| Provision for excess inventory   | 2,370                        | 406         |
| Changes in operating assets & liabilities                                    |                              |             |
| Accounts receivable  | (5,587)                      | 16          |
| Inventories  | 431                          | (7,213)     |
| Prepaid expenses and other current assets                                    | (1,049)                      | (808)       |
| Accounts payable and other current liabilities                               | 5,642                        | (3,928)     |
| Deferred revenue   | (891)                        | (3,109)     |
| Income taxes   | (48)                         | (286)       |
| Other assets and liabilities   | (1,905)                      | 6,226       |
| Net cash used for operating activities                                       | (10,797)                     | (12,565)    |
| <b>Cash flows from investing activities</b>                                  |                              |             |
| Proceeds from sale of dry strip assets and intellectual property             | 1,200                        |             |
| Expenditures for property, plant, and equipment                              | (336)                        | (385)       |
| Decrease in restricted cash  | 2                            | 3           |
| Net cash provided by (used for) investing activities                         | 866                          | (382)       |
| <b>Cash flows from financing activities</b>                                  |                              |             |
| Proceeds from exercise of stock options                                      | 206                          | 847         |
| Proceeds from Employee Stock Purchase Plan                                   | 197                          | 179         |
| Net cash provided by financing activities                                    | 403                          | 1,026       |
| Effect of exchange rate changes on cash                                      | (819)                        | (1,159)     |
| Net decrease in cash and cash equivalents                                    | (10,347)                     | (13,080)    |
| Cash and cash equivalents at beginning of period                             | 44,986                       | 46,877      |
| Cash and cash equivalents at end of period                                   | \$ 34,639                    | \$ 33,797   |

See accompanying Notes to these Consolidated Financial Statements

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**Axcelis Technologies, Inc.**

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

**Note 1. Nature of Business**

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.

In December 2012, the Company sold its intellectual property rights and certain assets relating to the Company's dry strip product line to Lam Research Corporation ( Lam ). As a result of this transaction, the Company will cease the sale of 300 mm dry strip wafer processing equipment in 2013. The Company will be able to continue to sell dry strip systems for smaller wafers until December 2015 and to support its installed base of all dry strip systems indefinitely. The Gain on Sale of Dry Strip Assets and Intellectual Property are more fully described in Note 3 below and in Note 3 to the consolidated financial statements in the Company's 2012 Annual Report on Form 10-K.

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

The balance sheet at December 31, 2012 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, 2012.

The Company, incorporated in December 1995, is a successor to an ion implantation business founded in 1978.

**Note 2. Stock-Based Compensation**

The Company maintains the Axcelis Technologies, Inc. 2012 Equity Incentive Plan (the 2012 Equity Plan ), which became effective on May 2, 2012, and permits the issuance of options, restricted stock, restricted stock units and performance awards to selected employees, directors and consultants of the Company. The Company's 2000 Stock Plan (the 2000 Stock Plan ), expired on May 1, 2012 and no new grants may be made under that plan after this date. However, awards granted under the 2000 Stock Plan prior to the expiration remain outstanding and subject to the

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terms of the 2000 Stock Plan. The Company also maintains the Axcelis Technologies, Inc. Employee Stock Purchase Plan (the "ESPP"), an Internal Revenue Code Section 423 plan.

The 2012 Equity Plan and the ESPP are more fully described in Note 13 to the consolidated financial statements in the Company's 2012 Annual Report on Form 10-K.

The Company recognized stock-based compensation expense of \$0.8 million and \$0.9 million for the three-month periods ended June 30, 2013 and 2012, respectively. The Company recognized stock-based compensation expense of \$1.6 million and \$2.0 million for the six-month periods ended June 30, 2013 and 2012, respectively. These amounts include compensation expense related to restricted stock units, non-qualified stock options and stock to be issued to participants under the ESPP.

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**Note 3. Gain on Sale of Dry Strip Assets and Intellectual Property**

In December 2012, the Company sold its dry strip assets and intellectual property to Lam. A portion of the purchase consideration (up to \$2.0 million) is contingent upon the Company achieving certain milestones. The Company recorded \$0.8 million and \$1.2 million for the proceeds received based on its achievement of milestones during the three and six months ended June 30, 2013, respectively. These amounts were partially offset by additional costs associated with the lab system purchased by Lam.

**Note 4. Computation of Net Loss per Share**

Basic earnings or loss per share is computed by dividing income available or loss attributable 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, calculated using the treasury stock method.

The components of net loss per share are as follows:

|   | Three months ended                    |           | Six months ended |             |
|---|---------------------------------------|-----------|------------------|-------------|
|   | 2013                                  | 2012      | 2013             | 2012        |
|   | June 30,                              |           | June 30,         |             |
|   | (in thousands, except per share data) |           |                  |             |
| Net loss attributable to common stockholders  | \$ (4,019)                            | \$ (471)  | \$ (13,008)      | \$ (10,499) |
| Weighted average common shares outstanding used in computing basic and diluted net loss per share | 108,409                               | 107,639   | 108,319          | 107,353     |
| Net loss per share  |                                       |           |                  |             |
| Basic and Diluted   | \$ (0.04)                             | \$ (0.00) | \$ (0.12)        | \$ (0.10)   |

The Company incurred net losses for the three and six-month periods ended June 30, 2013 and 2012, and has excluded the incremental shares attributable to outstanding stock options, restricted stock and restricted stock units from the calculation of net loss per share because the effect would have been anti-dilutive. The following table sets forth the number of incremental shares excluded from the calculation above:

|  | Three months ended |       | Six months ended |       |
|--|--------------------|-------|------------------|-------|
|  | 2013               | 2012  | 2013             | 2012  |
|  | June 30,           |       | June 30,         |       |
|  | (in thousands)     |       |                  |       |
| Incremental shares excluded from the calculation of net loss per share | 2,183              | 1,390 | 2,159            | 1,809 |

**Note 5. Accumulated Other Comprehensive Income**

The following table presents the changes in accumulated other comprehensive income, net of tax, by component for the six months ended June 30, 2013:

|  | Foreign<br>currency | Defined benefit<br>pension plan<br>(in thousands) | Total    |
|--|---------------------|---|----------|
| Balance at December 31, 2012   | \$ 5,375            | \$ (355)  | \$ 5,020 |
| Other comprehensive loss before reclassifications                    | (1,959)             |   | (1,959)  |
| Amounts reclassified from accumulated other comprehensive income (1) |                     | 16  | 16       |
| Net current-period other comprehensive loss                          | (1,959)             | 16  | (1,943)  |
| Balance at June 30, 2013   | \$ 3,416            | \$ (339)  | \$ 3,077 |

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(1) Amount presented before taxes as the tax effect is not material to the consolidated financial statements.

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The components of inventories are as follows:

|                                    | <b>June 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|------------------------------------|--------------------------|------------------------------|
|                                    | (in thousands)           |                              |
| Raw materials                      | \$ 60,760                | \$ 72,013                    |
| Work in process                    | 16,514                   | 12,253                       |
| Finished goods (completed systems) | 19,138                   | 15,968                       |
|                                    | \$ 96,412                | \$ 100,234                   |

When recorded, inventory reserves are intended to reduce the carrying value of inventories to their 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 inventories based on a combination of factors including the following: 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, 2013 and December 31, 2012, inventories are stated net of inventory reserves of \$34.9 million and \$33.6 million respectively.

During the three and six months ended June 30, 2013, the Company recorded a charge to cost of sales of \$0 and \$2.1 million, respectively, for 300mm dry strip components. Under the terms of the agreement with Lam, the Company was permitted to manufacture and sell dry strip products through September 2013. Due to changes in the forecasted sales of the Company's dry strip products that become known during the six months ended June 30, 2013, a portion of the dry strip inventory components were determined to be non-recoverable.

During the three months and six months ended June 30, 2013, the Company recorded a charge to cost of sales of \$0 and \$0.5 million, respectively, due to production levels below normal capacity. Similar charges recorded during the six months ended June 30, 2012, were not material to the financial results of the Company.

**Note 7. Restructuring Charges**

In 2012, the Company completed reductions in force related to actions taken by management to control costs, improve the focus of its operations, sustain future profitability and conserve cash. As of December 31, 2012, approximately \$0.7 million of these costs were accrued and unpaid.

During the six months ended June 30, 2013, the Company implemented further actions, which resulted in restructuring charges for severance and related costs of \$2.2 million recorded. The liability at June 30, 2013 of \$0.5 million is expected to be paid primarily in the third quarter of 2013.

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

|                              | (In thousands) |         |
|------------------------------|----------------|---------|
| Balance at December 31, 2012 | \$             | 659     |
| Severance and related costs  |                | 2,222   |
| Cash payments                |                | (2,392) |
| Balance at June 30, 2013     | \$             | 489     |



Table of Contents**Note 8. Product Warranty**

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

The changes in the Company's standard product warranty liability are as follows:

|  | <b>Six months ended</b> |             |
|--|-------------------------|-------------|
|  | <b>June 30,</b>         |             |
|  | <b>2013</b>             | <b>2012</b> |
|  | <b>(in thousands)</b>   |             |
| Balance at January 1 (beginning of year)                                       | \$ 1,801                | \$ 3,697    |
| Warranties issued during the period  | 925                     | 1,657       |
| Settlements made during the period   | (705)                   | (1,873)     |
| Changes in estimate of liability for pre-existing warranties during the period | (536)                   | (770)       |
| Balance at June 30 (end of period)   | \$ 1,485                | \$ 2,711    |
| Amount classified as current   | \$ 1,419                | \$ 2,589    |
| Amount classified as long-term   | 66                      | 122         |
| Total warranty liability   | \$ 1,485                | \$ 2,711    |

**Note 9. Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

**(a) Fair Value Hierarchy**

The accounting guidance for fair value measurement requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

**(b) Assets Measured at Fair Value on a Recurring Basis**

The Company's money market funds are included in cash and cash equivalents in the consolidated balance sheets, and are considered a level 1 investment as they are valued at quoted market prices in active markets.

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The following table sets forth Company's assets which are measured at fair value on a recurring basis by level within the fair value hierarchy.

|                    | <b>June 30, 2013</b> |                                |                | <b>Total</b> |
|--------------------|----------------------|--------------------------------|----------------|--------------|
|                    | <b>Level 1</b>       | <b>Fair Value Measurements</b> |                |              |
|                    |                      | <b>Level 2</b>                 | <b>Level 3</b> |              |
|                    |                      | <b>(in thousands)</b>          |                |              |
| <b>Assets</b>      |                      |                                |                |              |
| Cash equivalents:  |                      |                                |                |              |
| Money market funds | \$ 11,782            | \$                             | \$             | \$ 11,782    |

|                    | <b>December 31, 2012</b> |                                |                | <b>Total</b> |
|--------------------|--------------------------|--------------------------------|----------------|--------------|
|                    | <b>Level 1</b>           | <b>Fair Value Measurements</b> |                |              |
|                    |                          | <b>Level 2</b>                 | <b>Level 3</b> |              |
|                    |                          | <b>(in thousands)</b>          |                |              |
| <b>Assets</b>      |                          |                                |                |              |
| Cash equivalents:  |                          |                                |                |              |
| Money market funds | \$ 29,179                | \$                             | \$             | \$ 29,179    |

**(c) Other Financial Instruments**

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents (which are comprised primarily of deposit and overnight sweep accounts), accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value due to their short-term maturities.

**Note 10. Financing Arrangements****Bank Credit Facility**

Until July 5, 2013, the Company had a revolving credit facility with a bank pursuant to an Amended and Restated Loan and Security Agreement dated April 25, 2011 and subsequently amended (the "Revolving Credit Facility"). The facility provided for borrowings up to \$30 million, based primarily on accounts receivable, and was subject to certain financial covenants requiring the Company to maintain minimum levels of operating results and liquidity. The Company used the facility to support letters of credit and for short term borrowing as needed. The agreement was expected to terminate on April 10, 2015.

There were no borrowings against this facility during the six months ended June 30, 2013.

As disclosed in Note 15, the Company terminated the Revolving Credit Facility on July 5, 2013.

**Note 11. Income Taxes**

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

As of December 31, 2012 there was a valuation allowance of approximately \$145 million. The Company is in a three year cumulative loss position in the United States. As a result, the Company maintains a 100% valuation allowance to reduce the carrying value of the related deferred tax assets to zero. The Company will continue to maintain a full valuation allowance for those tax assets until sustainable future levels of profitability are evident.

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**Note 12. Concentration of Risk**

For the three months ended June 30, 2013, three customers accounted for approximately 15.1%, 14.7%, and 10.6% of consolidated revenue. For the six months ended June 30, 2013, one customer accounted for approximately 10.6% of consolidated revenue.

For the three months ended June 30, 2012, three customers accounted for approximately 23.4%, 15.7%, and 10.2% of consolidated revenue, respectively. For the six months ended June 30, 2012, two customers accounted for approximately 24.0% and 15.0% of consolidated revenue, respectively.

At June 30, 2013, one customer accounted for 28.4% of consolidated accounts receivable. At December 31, 2012, two customers accounted for 11.9% and 11.5% of consolidated accounts receivable, respectively.

**Note 13. Contingencies**

**(a) 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.

**(b) 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 14. Recent Accounting Guidance**

Accounting Standards or Updates Recently Adopted

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Effective January 1, 2013, the Company adopted Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. This newly issued accounting update requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. As this update only requires enhanced disclosure, the adoption of this update did not impact the Company's financial position or results of operations.

### Accounting Standards or Updates Not Yet Effective

The Company has evaluated the accounting guidance recently issued and has determined that these standards or updates will not have a material impact on its financial position or results of operations.

### **Note 15. Subsequent Events**

#### **Term Loan Secured by Real Estate**

On July 5, 2013, the Company entered into a Business Loan Agreement with Northern Bank & Trust Company (the "Bank"), which provides for a three year term loan of \$15.0 million, secured by the Company's real estate in Beverly, Massachusetts (the "Term Loan"). The Company will use the proceeds of the Term Loan as needed to fund growth, specifically investments in the leading edge Purion ion implant platform, and other working capital and general corporate purposes.

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The Term Loan bears interest at the rate of 5.5% per annum, with payments of principal beginning August 5, 2014 on a 10 year amortization schedule. Interest is payable monthly beginning on August 5, 2013. All outstanding principal and unpaid interest is due and payable on July 5, 2016.

Subject to exceptions, the Term Loan limits the Company's ability to, among other things, dispose of assets, engage in a new line of business, have a material change in its executive management, have a change of control, acquire another business, incur additional indebtedness, incur liens, pay dividends and make other distributions, and make investments. In addition, under the Term Loan, the Company must comply with the following financial covenants:

- **Debt Service Ratio.** Commencing in 2014, the Company's quarterly net operating income multiplied by 4 must be not less than the actual annual debt service over the twelve months following the start of such quarter, multiplied by 1.45.
- **Net Worth.** The Company must maintain a net worth of at least \$100.0 million, as shown in its quarterly financial statements.
- **Liquidity.** The Company must maintain consolidated domestic cash and cash equivalents, and investments with maturities of fewer than twelve (12) months of not less than \$7.5 million.

The Term Loan provides for events of default including, but not limited to, non-payment, breach of covenants, material adverse change to the business or impairment of the collateral, insolvency, or defaults on other debt. Upon an event of default and during its continuance, the interest rate will automatically increase 5% above the otherwise applicable interest rate.

In addition, upon an event of default, the Bank may elect a number of remedies including, but not limited to, declaring all obligations (including principal, interest and expenses) immediately due and payable, which shall occur automatically if the Company becomes insolvent. The Term Loan is secured by a mortgage on the property located at 108 Cherry Hill Drive and 25 Sam Fonzo Drive, Beverly, Massachusetts.

Except for prepayments of up to 20% of the outstanding Term Loan balance per annum, the Company must pay a 3% early termination fee on amounts prepaid prior to July 5, 2014, a 2% fee on amounts prepaid between July 5, 2014 and July 5, 2015 and a 1% fee on amounts prepaid between July 5, 2015 and July 5, 2016.

**Termination of Revolving Credit Facility**

Effective July 5, 2013, the Company terminated the Revolving Credit Facility with Silicon Valley Bank, which had provided for borrowings up to \$30.0 million based primarily on accounts receivable. With the termination of this facility, the Company has cash collateralized two letters of credit issued by Silicon Valley Bank in the aggregate amount of \$1.5 million. The Company paid a \$0.3 million early termination fee to Silicon

Valley Bank.

**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 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.*



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**Overview**

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

In December 2012, we sold to Lam Research Corporation the intellectual property rights and other assets relating to our dry strip systems product line. The purchased intellectual property rights include, among other things, worldwide patent rights, patent applications, copyrights, industrial designs, know-how and related rights used by us in our dry strip products. Lam granted us a worldwide, non-exclusive, non-transferable, royalty free license to use the intellectual property rights sold by us. The license allows us to make and sell 300 mm dry strip wafer processing equipment for semiconductor applications through September 2013. We will continue to sell dry strip systems for smaller wafers until December 2015 and support our installed base of dry strip systems indefinitely. Due to this continuing interest in the dry strip business, the sale of the intellectual property rights and other assets to Lam have been reported in continuing operations.

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. Consolidation and partnering within the semiconductor manufacturing industry has resulted in a small number of customers representing a substantial portion of our business. Our net revenue from our ten largest customers accounted for 70.0% of total revenue for the six months ended June 30, 2013; compared to 83.8% of revenue for the six months ended June 30, 2012.

Weak industry conditions that we experienced in 2012 continued through the first quarter of 2013, but we believe that beginning in the second quarter of 2013 we have entered a period of market improvement. We continue to maintain tight control of discretionary spending. Our financial results reflect efforts in recent years to lower our breakeven revenue levels while continuing to invest a significant portion of our personnel and financial resources in research and development programs.

Operating results for the interim 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, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions. 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

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apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management has not identified any need to make any material change in, and has not changed, any of our critical accounting estimates and judgments as described in Management's Discussion and Analysis of Financial Conditions and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents**Results of Operations**

The following table sets forth our results of operations as a percentage of total revenue:

|  | Three months ended |                  | Six months ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | 2013               | June 30,<br>2012 | 2013             | June 30,<br>2012 |
| Revenue:   |                    |                  |                  |                  |
| Product  | 85.8%              | 87.1%            | 85.3%            | 86.8%            |
| Services   | 14.2               | 12.9             | 14.7             | 13.2             |
| Total revenue  | 100.0              | 100.0            | 100.0            | 100.0            |
| Cost of revenue:   |                    |                  |                  |                  |
| Product  | 53.6               | 51.8             | 54.0             | 52.4             |
| Services   | 11.2               | 9.7              | 12.4             | 9.6              |
| Total cost of revenue                                      | 64.8               | 61.5             | 66.4             | 62.0             |
| Gross profit   | 35.2               | 38.5             | 33.6             | 38.0             |
| Operating expenses:  |                    |                  |                  |                  |
| Research and development                                   | 17.9               | 17.7             | 20.1             | 19.4             |
| Sales and marketing  | 11.7               | 10.5             | 12.2             | 11.2             |
| General and administrative                                 | 13.5               | 11.0             | 14.7             | 12.5             |
| Gain on sale of dry strip assets and intellectual property | (1.7)              |                  | (1.3)            |                  |
| Restructuring charges                                      | 0.9                | 0.3              | 2.5              | 2.7              |
| Total operating expenses                                   | 42.3               | 39.5             | 48.2             | 45.8             |
| Loss from operations:                                      | (7.1)              | (1.0)            | (14.6)           | (7.8)            |
| Other income (expense):                                    |                    |                  |                  |                  |
| Interest expense   | (0.1)              |                  | (0.1)            |                  |
| Other, net   | (0.7)              | 1.0              | 0.7              | (0.3)            |
| Total other income (expense)                               | (0.8)              | 1.0              | 0.6              | (0.3)            |
| Loss before income taxes                                   | (7.9)              | 0.0              | (14.0)           | (8.1)            |
| Income taxes   | 0.6                | 0.8              | 0.7              | 1.1              |
| Net loss   | (8.5)%             | (0.8)%           | (14.7)%          | (9.2)%           |

Table of Contents**Revenue**

The following table sets forth our revenues.

|                               | Three months ended<br>June 30, |           | Period-to-Period<br>Change |         | Six months ended<br>June 30, |            | Period-to-Period<br>Change |         |
|-------------------------------|--------------------------------|-----------|----------------------------|---------|------------------------------|------------|----------------------------|---------|
|                               | 2013                           | 2012      | \$                         | %       | 2013                         | 2012       | \$                         | %       |
| (dollars in thousands)        |                                |           |                            |         |                              |            |                            |         |
| <b>Revenues:</b>              |                                |           |                            |         |                              |            |                            |         |
| Product                       | \$ 40,769                      | \$ 51,465 | \$ (10,696)                | (20.8)% | \$ 75,220                    | \$ 99,003  | \$ (23,783)                | (24.0)% |
| <i>Percentage of revenues</i> | 85.8%                          | 87.1%     |                            |         | 85.3%                        | 86.8%      |                            |         |
| Services                      | 6,732                          | 7,649     | (917)                      | (12.0)% | 13,006                       | 15,117     | (2,111)                    | (14.0)% |
| <i>Percentage of revenues</i> | 14.2%                          | 12.9%     |                            |         | 14.7%                        | 13.2%      |                            |         |
| Total revenues                | \$ 47,501                      | \$ 59,114 | \$ (11,613)                | (19.6)% | \$ 88,226                    | \$ 114,120 | \$ (25,894)                | (22.7)% |

Three Months Ended June 30, 2013 Compared with Three Months Ended June 30, 2012*Product*

Product revenue, which includes system sales, sales of spare parts and product upgrades, was \$40.8 million, or 85.8%, of revenue during the three months ended June 30, 2013, compared with \$51.5 million, or 87.1% of revenue for the three months ended June 30, 2012. The year over year decrease in product revenue is attributable to weak semiconductor market spending which has kept revenue levels low over the past four quarters.

A portion of our revenue from system sales is deferred until installation and other services related to future deliverables are performed. The total amount of deferred revenue at June 30, 2013 and December 31, 2012 was \$6.0 million and \$6.9 million, respectively. The decrease was mainly due to the decrease in systems sales during the six months ended June 30, 2013, and the timing of acceptance of deferred system sales.

*Services*

Service revenue, which includes the labor component of maintenance and service contracts and fees for service hours provided by on-site service personnel, was \$6.7 million, or 14.2% of revenue for the three months ended June 30, 2013, compared with \$7.6 million, or 12.9% of revenue for the three months ended June 30, 2012. Service revenue fluctuates from period to period based on capacity utilization at customers manufacturing facilities, which affects the need for equipment service. The decrease during the three months ended June 30, 2013 was primarily due to lower fab utilization in the semiconductor industry as compared to the three months ended June 30, 2012.

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Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012

*Product*

Product revenue was \$75.2 million, or 85.3% of revenue for the six months ended June 30, 2013, compared with \$99.0 million, or 86.8% of revenue for the six months ended June 30, 2012. The decrease in product revenue is attributable to weak semiconductor market spending.

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*Services*

Service revenue, which includes the labor component of maintenance and service contracts and fees for service hours provided by on-site service personnel, was \$13.0 million, or 14.7% of revenue for the six months ended June 30, 2013, compared with \$15.1 million, or 13.2% of revenue for the six months ended June 30, 2012. Service revenue fluctuates from period to period based on capacity utilization at customers manufacturing facilities, which affects the need for equipment service. Results for the first two quarters of 2013 were primarily driven by lower fab utilization in the semiconductor industry as compared to the first two quarters of 2012.

**Revenue Categories used by Management**

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

Three Months Ended June 30, 2013 Compared with Three Months Ended June 30, 2012

*Ion Implant*

Included in total revenue of \$47.5 million during the three months ended June 30, 2013 is revenue from sales of ion implantation products and related service of \$39.0 million, or 82.1% of total revenue, compared with \$50.6 million, or 85.6%, of total revenue for the three months ended June 30, 2012. The dollar decrease was due to the factors discussed above for product revenue.

*Aftermarket*

Our product revenue includes 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. Included in total revenue of \$47.5 million during the three months ended June 30, 2013 is revenue from our aftermarket business of \$30.9 million, compared to \$32.9 million for the three months ended June 30, 2012. Aftermarket revenue fluctuates from period to period based on capacity utilization at customers manufacturing facilities which affects the sale of spare parts and demand for equipment service. The decrease in aftermarket revenue for the three months ended June 30, 2013 as compared to the same period in 2012 was due to lower levels of fab utilization in the semiconductor industry that began in the second half of 2012 and has continued through the first quarter of 2013.

Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012

*Ion Implant*

Included in total revenue of \$88.2 million during the six months ended June 30, 2013 is revenue from sales of ion implantation products and related service of \$71.4 million, or 81.0% of total revenue, compared with \$90.9 million, or 79.7%, of total revenue for the six months ended June 30, 2012. The dollar decrease was due to the factors discussed above for product revenue.

*Aftermarket*

Included in total revenue of \$88.2 million during the six months ended June 30, 2013 is revenue from our aftermarket business of \$58.9 million, compared to \$65.0 million for the six months ended June 30, 2012. Aftermarket revenue fluctuates from period to period based on capacity utilization at customers' manufacturing facilities which affects the sale of spare parts and demand for equipment service. The decrease in aftermarket revenue in the first half of 2013 as compared to the same period in 2012 was due to a decrease in fab utilization in the semiconductor industry that began in the second half of 2012 and has continued through the first quarter of 2013.

Table of Contents**Gross Profit / Gross Margin**

The following table sets forth our gross profit / gross margin.

|                              | Three months ended<br>June 30, |              | Period-to-Period<br>Change |         | Six months ended<br>June 30, |              | Period-to-Period<br>Change |         |
|------------------------------|--------------------------------|--------------|----------------------------|---------|------------------------------|--------------|----------------------------|---------|
|                              | 2013                           | 2012         | \$                         | %       | 2013                         | 2012         | \$                         | %       |
| (dollars in thousands)       |                                |              |                            |         |                              |              |                            |         |
| <b>Gross Profit:</b>         |                                |              |                            |         |                              |              |                            |         |
| Product                      | \$ 15,312                      | \$ 20,866    | \$ (5,554)                 | (26.6)% | \$ 27,582                    | \$ 39,120    | \$ (11,538)                | (29.5)% |
| <i>Product gross margin</i>  | <i>37.6%</i>                   | <i>40.5%</i> |                            |         | <i>36.7%</i>                 | <i>39.5%</i> |                            |         |
| Services                     | 1,425                          | 1,922        | (497)                      | (25.9)% | 2,096                        | 4,204        | (2,108)                    | (50.1)% |
| <i>Services gross margin</i> | <i>21.2%</i>                   | <i>25.1%</i> |                            |         | <i>16.1%</i>                 | <i>27.8%</i> |                            |         |
| Total gross profit           | \$ 16,737                      | \$ 22,788    | \$ (6,051)                 | (26.6)% | \$ 29,678                    | \$ 43,324    | \$ (13,646)                | (31.5)% |
| Gross margin                 | 35.2%                          | 38.5%        |                            |         | 33.6%                        | 38.0%        |                            |         |

Three Months Ended June 30, 2013 Compared with Three Months Ended June 30, 2012*Product*

Gross profit from product revenue was 37.6% for the three months ended June 30, 2013, compared to 40.5% for the three months ended June 30, 2012. The decrease in gross profit of 2.9 percentage points is due lower systems sales volumes which reduced gross profit by 7.7 percentage points, offset by a 4.8 percentage point increase in gross profit resulting from the favorable impact of an increased mix of parts and upgrade revenue at higher margins.

*Services*

Service revenue gross margin was 21.2% for the three months ended June 30, 2013, compared to 25.1% for the three months ended June 30, 2012. The decrease in gross margin is attributable to lower sales volume and the unfavorable absorption of fixed service costs.

Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012*Product*



Gross profit from product revenue was 36.7% for the six months ended June 30, 2013, compared to 39.5% for the six months ended June 30, 2012. The decrease in gross profit of 2.8 percentage points is due lower systems sales volumes which reduced gross profit by 4.1 percentage points and a charge for excess inventory which reduced gross profit by 2.6 percentage points, offset by a 3.9 percentage point increase in gross profit resulting from the favorable impact of an increased mix of parts and upgrade revenue at higher margins.

*Services*

Service revenue gross margin was 16.1% for the six months ended June 30, 2013, compared to 27.8% for the six months ended June 30, 2012. The decrease in gross margin is attributable to lower sales volume and the unfavorable absorption of fixed service costs.

Table of Contents**Operating Expenses**

The following table sets forth our operating expenses:

|  | Three months ended<br>June 30 |           | Period-to-Period<br>Change |         | Six months ended<br>June 30, |           | Period-to-Period<br>Change |         |
|--|-------------------------------|-----------|----------------------------|---------|------------------------------|-----------|----------------------------|---------|
|  | 2013                          | 2012      | \$                         | %       | 2013                         | 2012      | \$                         | %       |
|  | (dollars in thousands)        |           |                            |         |                              |           |                            |         |
| Research and development                                   | \$ 8,503                      | \$ 10,478 | \$ (1,975)                 | (18.8)% | \$ 17,709                    | \$ 22,147 | (4,438)                    | (20.0)% |
| <i>Percentage of revenues</i>                              | 17.9%                         | 17.7%     |                            |         | 20.1%                        | 19.4%     |                            |         |
| Sales and marketing  | 5,594                         | 6,231     | (637)                      | (10.2)% | 10,796                       | 12,814    | (2,018)                    | (15.7)% |
| <i>Percentage of revenues</i>                              | 11.7%                         | 10.5%     |                            |         | 12.2%                        | 11.2%     |                            |         |
| General and administrative                                 | 6,412                         | 6,488     | (76)                       | (1.2)%  | 13,001                       | 14,287    | (1,286)                    | (9.0)%  |
| <i>Percentage of revenues</i>                              | 13.5%                         | 11.0%     |                            |         | 14.7%                        | 12.5%     |                            |         |
| Gain on sale of dry strip assets and intellectual property | (799)                         |           | (799)                      |         | (1,167)                      |           | (1,167)                    |         |
| <i>Percentage of revenues</i>                              | (1.7)%                        | 0.0%      |                            |         | (1.3)%                       | 0.0%      |                            |         |
| Restructuring charges                                      | 421                           | 153       | 268                        | 175.2%  | 2,222                        | 3,034     | (812)                      | (26.8)% |
| <i>Percentage of revenues</i>                              | 0.9%                          | 0.3%      |                            |         | 2.5%                         | 2.7%      |                            |         |
| Total operating expenses                                   | \$ 20,131                     | \$ 23,350 | \$ (3,219)                 | (13.8)% | \$ 42,561                    | \$ 52,282 | (9,721)                    | (18.6)% |
| <i>Percentage of revenues</i>                              | 42.3%                         | 39.5%     |                            |         | 48.2%                        | 45.8%     |                            |         |

Our operating expenses consist primarily of personnel costs, including salaries, commissions, bonuses, share-based compensation and related benefits and taxes; project material costs related to the design and development of new products and enhancement of existing products; and professional fees, travel and depreciation expenses.

Personnel costs are our largest expense, representing \$11.6 million and \$24.5 million, or 58.4% and 59.9%, of our total operating expenses, excluding the gain on sale of the dry strip assets and intellectual property and restructuring charges, for the three and six-month periods ended June 30, 2013, respectively. For the three and six-month periods ended June 30, 2012, personnel costs were \$13.4 million and \$28.8 million, or 57.8% and 58.4%, of our total operating expenses excluding restructuring charges.

We continue to maintain tight control over our discretionary spending. As a result of the current economic conditions in the semiconductor industry, we took a number of actions during the first half of 2013 to reduce our operating expenses and manage our cash. These actions included a reduction in our global workforce; focusing our R&D spending on critical programs; and asking our employees to take two weeks of unpaid shutdowns.

The impact of these actions and our operating results are discussed below.

**Research and Development**

|                               | Three months ended<br>June 30 |              | Period-to-Period<br>Change |         | Six months ended<br>June 30, |              | Period-to-Period<br>Change |       |
|-------------------------------|-------------------------------|--------------|----------------------------|---------|------------------------------|--------------|----------------------------|-------|
|                               | 2013                          | 2012         | \$                         | %       | 2013                         | 2012         | \$                         | %     |
|                               | (dollars in thousands)        |              |                            |         |                              |              |                            |       |
| Research and development      | \$ 8,503                      | \$ 10,478    | \$ (1,975)                 | (18.8)% | \$ 17,709                    | \$ 22,147    | \$ (4,438)                 | 20.0% |
| <i>Percentage of revenues</i> | <i>17.9%</i>                  | <i>17.7%</i> |                            |         | <i>20.1%</i>                 | <i>19.4%</i> |                            |       |

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

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Three Months Ended June 30, 2013 Compared with Three Months Ended June 30, 2012

Research and development expense was \$8.5 million during the three months ended June 30, 2013; a decrease of \$2.0 million, or 18.8%, compared with \$10.5 million during the three months ended June 30, 2012. The decrease included the reduction in payroll costs of \$1.2 million as a result of lowering our headcount through reductions in force. As we focused our R&D spend on critical programs, consulting, project material and related costs decreased by \$0.6 million and depreciation expense for internal use assets used as demonstration and/or test systems decreased by \$0.4 million.

Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012

Research and development expense was \$17.7 million during the six months ended June 30, 2013; a decrease of \$4.4 million, or 20.0%, compared with \$22.1 million during the six months ended June 30, 2012. The decrease included the reduction in payroll costs of \$2.1 million as a result of lowering our headcount through reductions in force. As we focused our R&D spend on critical programs, consulting, project material and related costs decreased by \$1.6 million and depreciation expense for internal use assets used as demonstration and/or test systems decreased by \$0.9 million.

**Sales and Marketing**

|                        | Three months ended<br>June 30 |          | Period-to-Period<br>Change |         | Six months ended<br>June 30, |           | Period-to-Period<br>Change |         |
|------------------------|-------------------------------|----------|----------------------------|---------|------------------------------|-----------|----------------------------|---------|
|                        | 2013                          | 2012     | \$                         | %       | 2013                         | 2012      | \$                         | %       |
|                        | (dollars in thousands)        |          |                            |         |                              |           |                            |         |
| Sales and marketing    | \$ 5,594                      | \$ 6,231 | \$ (637)                   | (10.2)% | \$ 10,796                    | \$ 12,814 | \$ (2,018)                 | (15.7)% |
| Percentage of revenues | 11.7%                         | 10.5%    |                            |         | 12.2%                        | 11.2%     |                            |         |

Our sales and marketing expenses result primarily from the sale of our equipment and services through our direct sales force.

Three Months Ended June 30, 2013 Compared with Three Months Ended June 30, 2012

Sales and marketing expense was \$5.6 million during the three months ended June 30, 2013; a decrease of \$0.6 million, or 10.2%, compared with \$6.2 million during the three months ended June 30, 2012. The decrease was primarily due to the reduction in payroll and related costs of \$0.8 million as a result of lowering our headcount through reductions in force and the cost savings realized by one week of unpaid shutdown taken by our employees.

Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012

Sales and marketing expense was \$10.8 million during the six months ended June 30, 2013; a decrease of \$2.0 million, or 15.7%, compared with \$12.8 million during the six months ended June 30, 2012. The decrease was primarily due to the reduction in payroll and related costs of \$1.4 million as a result of lowering our headcount through reductions in force and the cost savings realized by two weeks of unpaid shutdown taken by our employees. As a result of our tightened control over discretionary spending, we reduced our travel and entertainment costs, our consulting, project material and related costs, and freight and facilities related expenses by \$0.5 million.

Table of Contents**General and Administrative**

|                            | Three months ended<br>June 30 |          | Period-to-Period<br>Change |        | Six months ended<br>June 30, |           | Period-to-Period<br>Change |        |
|----------------------------|-------------------------------|----------|----------------------------|--------|------------------------------|-----------|----------------------------|--------|
|                            | 2013                          | 2012     | \$                         | %      | 2013                         | 2012      | \$                         | %      |
|                            | (dollars in thousands)        |          |                            |        |                              |           |                            |        |
| General and administrative | \$ 6,412                      | \$ 6,488 | \$ (76)                    | (1.2)% | \$ 13,001                    | \$ 14,287 | \$ (1,286)                 | (9.0)% |
| Percentage of revenues     | 13.5%                         | 11.0%    |                            |        | 14.7%                        | 12.5%     |                            |        |

Our general and administrative expenses result primarily from the costs associated with our executive, finance, legal and human resource functions.

Three Months Ended June 30, 2013 Compared with Three Months Ended June 30, 2012

General and administrative expense was \$6.4 million during the three months ended June 30, 2013; a decrease of \$0.1 million, or 1.2%, compared with \$6.5 million during the three months ended June 30, 2012, essentially flat for the second quarter.

Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012

General and administrative expense was \$13.0 million during the six months ended June 30, 2013; a decrease of \$1.3 million, or 9.0%, compared with \$14.3 million during the six months ended June 30, 2012. The decrease was primarily due to the reduction in salary and fringe benefits of \$0.7 million as a result of lowering our headcount through reductions in force and the cost savings realized by two weeks of unpaid shutdown taken by our employees. As a result of our tightened control over discretionary spending we reduced our professional fees, facilities and supplies related expenses during the six months ended June 30, 2013 by \$0.6 million as compared to the same period in 2012.

**Gain on Sale of Dry Strip Assets and Intellectual Property**

|  | Three months ended<br>June 30 |      | Period-to-Period<br>Change |   | Six months ended<br>June 30, |      | Period-to-Period<br>Change |   |
|--|-------------------------------|------|----------------------------|---|------------------------------|------|----------------------------|---|
|  | 2013                          | 2012 | \$                         | % | 2013                         | 2012 | \$                         | % |
|  | (dollars in thousands)        |      |                            |   |                              |      |                            |   |
| Gain on Sale of Dry Strip Assets and Intellectual Property | \$ (799)                      | \$   | \$ (799)                   | % | \$ (1,167)                   | \$   | \$ (1,167)                 | % |
| Percentage of revenues                                     | (1.7)%                        | 0.0% |                            |   | (1.3)%                       | 0.0% |                            |   |

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In December 2012, we sold our dry strip assets and intellectual property to Lam. A portion of the purchase consideration (up to \$2.0 million) is contingent upon our achieving certain milestones. During the three and six-month periods ended June 30, 2013, the Company recorded \$0.8 million and \$1.2 million, respectively, for the milestones achieved. These amounts were partially offset by additional costs associated with the lab system purchased by Lam.

Table of Contents**Restructuring Charges**

|                        | Three months ended<br>June 30 |        | Period-to-Period<br>Change |        | Six months ended<br>June 30, |          | Period-to-Period<br>Change |         |
|------------------------|-------------------------------|--------|----------------------------|--------|------------------------------|----------|----------------------------|---------|
|                        | 2013                          | 2012   | \$                         | %      | 2013                         | 2012     | \$                         | %       |
|                        | (dollars in thousands)        |        |                            |        |                              |          |                            |         |
| Restructuring charges  | \$ 421                        | \$ 153 | \$ 268                     | 175.2% | \$ 2,222                     | \$ 3,034 | \$ (812)                   | (26.8)% |
| Percentage of revenues | 0.9%                          | 0.3%   |                            |        | 2.5%                         | 2.7%     |                            |         |

We continue to align our organization with market demands. Due to economic conditions in the semiconductor industry, we implemented reductions in force in the periods presented to improve the focus of our operations, control costs, achieve future profitability and conserve cash. As a result of these actions, we recorded a restructuring expense for severance and related costs during the three and six-month periods ended June 30, 2013 and 2012, respectively.

**Other Income (Expense)**

|                             | Three months ended<br>June 30 |        | Period-to-Period<br>Change |          | Six months ended<br>June 30, |          | Period-to-Period<br>Change |          |
|-----------------------------|-------------------------------|--------|----------------------------|----------|------------------------------|----------|----------------------------|----------|
|                             | 2013                          | 2012   | \$                         | %        | 2013                         | 2012     | \$                         | %        |
|                             | (dollars in thousands)        |        |                            |          |                              |          |                            |          |
| Other income (expense), net | \$ (362)                      | \$ 560 | \$ (922)                   | (164.6)% | \$ 471                       | \$ (355) | \$ 826                     | (232.7)% |
| Percentage of revenues      | (0.8)%                        | 1.0%   |                            |          | 0.6%                         | (0.3)%   |                            |          |

Other income (expense) consists primarily of foreign exchange gains and losses attributable to fluctuations of the U.S. dollar against the local currencies of certain of the countries in which we operate, interest earned on our invested cash balances and bank fees associated with maintaining our credit facility.

During the three and six-month periods ended June 30, 2013 and 2012, we had no significant off-balance-sheet risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

**Income Taxes**

|  | Three months ended<br>June 30 |      | Period-to-Period<br>Change |   | Six months ended<br>June 30, |      | Period-to-Period<br>Change |   |
|--|-------------------------------|------|----------------------------|---|------------------------------|------|----------------------------|---|
|  | 2013                          | 2012 | \$                         | % | 2013                         | 2012 | \$                         | % |
|  | (dollars in thousands)        |      |                            |   |                              |      |                            |   |



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|                               |    |             |    |             |    |       |         |    |             |    |             |    |       |         |
|-------------------------------|----|-------------|----|-------------|----|-------|---------|----|-------------|----|-------------|----|-------|---------|
| Income taxes                  | \$ | 263         | \$ | 469         | \$ | (206) | (43.9)% | \$ | 596         | \$ | 1,186       | \$ | (590) | (49.7)% |
| <i>Percentage of revenues</i> |    | <i>0.6%</i> |    | <i>0.8%</i> |    |       |         |    | <i>0.7%</i> |    | <i>1.1%</i> |    |       |         |

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

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**Liquidity and Capital Resources**

Our liquidity is affected by many factors. Some of these relate specifically to the operations of our business, for example, the rate of sale of our product lines, and others relate to the uncertainties of global economies, including the availability of credit and the condition of the overall semiconductor equipment industry. Our established cost structure does not vary significantly with changes in volume, which limits our ability to reduce costs in proportion to declining sales. We have tried to reduce operating expense to achieve profitability towards the lower end of our quarterly revenue swings. We may experience fluctuations in operating results and cash flows depending on our revenue as driven by the level of capital expenditures by semiconductor manufacturers.

During the six-month periods ended June 30, 2013 and 2012, the Company used \$10.8 million and \$12.6 million, respectively, of cash to support operating activities. The cash used by operations during the six months ended June 30, 2013 was predominately driven by the Company's loss from operations excluding non-cash charges for depreciation and amortization and stock based compensation expense, the increase in the accounts receivable, prepaid expenses and other current assets, and other assets and liabilities balances, and the increase in our accounts payable and accrued liability balances. Investing activities included \$1.2 million in cash received for the achievement of a milestone associated with the Lam transaction and partially offset the use of cash in operations, resulting in cash and cash equivalents at June 30, 2013 of \$34.6 million, compared to \$45.0 million at December 31, 2012. Financing activities were not significant.

As noted in Note 15 to the consolidated financial statements in this Report on Form 10-Q, effective July 5, 2013, the Company terminated the Revolving Credit Facility with Silicon Valley Bank, which had provided for borrowings up to \$30.0 million based primarily on accounts receivable. With the termination of this facility, the Company has cash collateralized two letters of credit issued by Silicon Valley Bank in the aggregate amount of \$1.5 million. The Company paid a \$0.3 million early termination fee to Silicon Valley Bank.

Additionally, on July 5, 2013, the Company entered into a Business Loan Agreement with Northern Bank & Trust Company (the "Bank"), which provides for a three year term loan of \$15.0 million, secured by the Company's real estate in Beverly, Massachusetts (the "Term Loan"). \$8M of the loan proceeds will be held in a restricted interest reserve escrow account at the Bank. The Bank will also maintain a reserve on the Company's loan account with the Bank for the Company's quarterly real estate taxes on the mortgaged property. The Company will use the proceeds of the Term Loan as needed to fund growth, specifically investments in the leading edge Purion ion implant platform, and other working capital and general corporate purposes. The Term Loan bears interest at the rate of 5.5% per annum, with payments of principal beginning August 5, 2014 on a 10 year amortization schedule. Interest is payable monthly beginning on August 5, 2013. All outstanding principal and unpaid interest is due and payable on July 5, 2016. The Company is required to comply with certain financial covenants under the Business Loan Agreement.

We expect that our capital expenditures in the next twelve months will not exceed \$2.5 million.

We believe that based on our current market, revenue, expense and cash flow forecasts, our existing cash and cash equivalents will be sufficient to satisfy our anticipated cash requirements for the short and long-term.

**Commitments and Contingencies**

Significant commitments and contingencies at June 30, 2013 are consistent with those discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 16 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

As of June 30, 2013, there have been no material changes to the quantitative information about market risk disclosed in Item 7A to our annual report on Form 10-K for the year ended December 31, 2012.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during the three months ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

As of June 30, 2013, there have been no material changes to the risk factors described in Item 1A to our annual report on Form 10-K for the year ended December 31, 2012.

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

None.

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

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.



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**Item 6. Exhibits.**

The following exhibits are filed herewith:

| Exhibit<br>No | Description  |
|---------------|--|
| 3.1           | Amended and Restated Certificate of Incorporation of the Company adopted May 6, 2009. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on May 11, 2009.  |
| 3.2           | Bylaws of the Company, as amended as of August 8, 2007. Incorporated by reference to Exhibit 3.2 of the Company's Form 10-Q for the quarterly period ended June 30, 2007, filed with the Commission on August 9, 2007.   |
| 10.1          | Business Loan Agreement dated as of July 5, 2013 between the Company and Northern Bank & Trust Company. Filed herewith.  |
| 10.2          | Mortgage and Fixture Filing dated as of July 5, 2013 by the Company in favor of Northern Bank & Trust Company. 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 August 2, 2013. 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 August 2, 2013. 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 August 2, 2013. 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 August 2, 2013. Filed herewith.   |
| 101           | The following materials from the Company's Form 10-Q for the quarter ended June 30, 2013, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Loss, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements (Unaudited). |

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**SIGNATURES**

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

DATED: August 2, 2013

AXCELIS TECHNOLOGIES, INC.

By: /s/ KEVIN J. BREWER

Kevin J. Brewer  
*Executive Vice President and Interim Chief Financial  
Officer  
Duly Authorized Officer and Principal Financial  
Officer*