

AXCELIS TECHNOLOGIES INC

Form 10-Q

November 06, 2014

[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 September 30, 2014

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.)

108 Cherry Hill Drive

Beverly, Massachusetts 01915

(Address of principal executive offices, including zip code)

(978) 787-4000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 31, 2014 there were 112,004,603 shares of the registrant's common stock outstanding.

Table of Contents

Table of Contents

PART I - FINANCIAL INFORMATION

| | | |
|---|--|----|
| <u>Item 1.</u> | <u>Financial Statements (Unaudited)</u> | |
| | <u>Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013</u> | 3 |
| | <u>Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2014 and 2013</u> | 4 |
| | <u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u> | 5 |
| | <u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u> | 6 |
| | <u>Notes to Consolidated Financial Statements (Unaudited)</u> | 7 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 13 |
| | <u>Overview</u> | 13 |
| | <u>Critical Accounting Estimates</u> | 14 |
| | <u>Results of Operations</u> | 14 |
| | <u>Liquidity and Capital Resources</u> | 21 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 22 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 23 |
| <u>PART II - OTHER INFORMATION</u> | | 23 |
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 23 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 23 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 23 |
| <u>Item 3.</u> | <u>Defaults Upon Senior Securities</u> | 23 |
| <u>Item 4.</u> | <u>Mine Safety Disclosures</u> | 23 |
| <u>Item 5.</u> | <u>Other Information</u> | 23 |
| <u>Item 6.</u> | <u>Exhibits</u> | 24 |

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 September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | | | | |
| Product | \$ 32,360 | \$ 42,934 | \$ 122,170 | \$ 118,151 |
| Services | 6,171 | 5,897 | 18,351 | 18,907 |
| Total revenue | 38,531 | 48,831 | 140,521 | 137,058 |
| Cost of revenue | | | | |
| Product | 18,823 | 27,339 | 73,646 | 74,976 |
| Services | 4,564 | 4,516 | 15,507 | 15,427 |
| Total cost of revenue | 23,387 | 31,855 | 89,153 | 90,403 |
| Gross profit | 15,144 | 16,976 | 51,368 | 46,655 |
| Operating expenses | | | | |
| Research and development | 7,950 | 8,148 | 26,052 | 25,857 |
| Sales and marketing | 4,891 | 5,330 | 15,404 | 16,128 |
| General and administrative | 5,380 | 6,164 | 18,356 | 19,165 |
| Gain on sale of dry strip assets and intellectual property | | | | (1,167) |
| Restructuring charges | 2,288 | 112 | 2,648 | 2,334 |
| Total operating expenses | 20,509 | 19,754 | 62,460 | 62,317 |
| Loss from operations | (5,365) | (2,778) | (11,092) | (15,662) |
| Other income (expense) | | | | |
| Interest income | 2 | 3 | 6 | 8 |
| Interest expense | (304) | (193) | (812) | (308) |
| Other, net | 1,352 | (1,252) | 1,282 | (671) |
| Total other income (expense) | 1,050 | (1,442) | 476 | (971) |
| Loss before income taxes | (4,315) | (4,220) | (10,616) | (16,633) |
| Income taxes | 389 | 530 | 814 | 1,125 |
| Net loss | \$ (4,704) | \$ (4,750) | \$ (11,430) | \$ (17,758) |
| Net loss per share | | | | |

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

| | | | | | | | | |
|--|----|---------|----|---------|----|---------|----|---------|
| Basic and Diluted | \$ | (0.04) | \$ | (0.04) | \$ | (0.10) | \$ | (0.16) |
| Shares used in computing net loss per share | | | | | | | | |
| Basic and diluted weighted average common shares | | 111,701 | | 109,074 | | 111,191 | | 108,573 |

See accompanying Notes to these Consolidated Financial Statements

Table of Contents

Axcelis Technologies, Inc.

Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|---|-------------|--|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | \$ (4,704) | \$ (4,750) | \$ (11,430) | \$ (17,758) |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (2,950) | 2,012 | (2,868) | 53 |
| Amortization of actuarial losses from pension plan | 6 | 8 | 18 | 24 |
| Total other comprehensive (loss) income | (2,944) | 2,020 | (2,850) | 77 |
| Comprehensive loss | \$ (7,648) | \$ (2,730) | \$ (14,280) | \$ (17,681) |

See accompanying Notes to these Consolidated Financial Statements

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

| | September 30, 2014 | December 31, 2013 |
|---|-------------------------------|------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 32,536 | \$ 46,290 |
| Accounts receivable, net | 29,904 | 36,587 |
| Inventories, net | 107,816 | 95,789 |
| Prepaid expenses and other current assets | 5,739 | 6,242 |
| Total current assets | 175,995 | 184,908 |
| Property, plant and equipment, net | 30,880 | 32,006 |
| Long-term restricted cash | 825 | 825 |
| Other assets | 12,843 | 15,810 |
| Total assets | \$ 220,543 | \$ 233,549 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 14,699 | \$ 19,451 |
| Accrued compensation | 5,830 | 4,845 |
| Warranty | 1,160 | 1,316 |
| Income taxes | 545 | 417 |
| Deferred revenue | 4,867 | 4,387 |
| Current portion of long-term debt | 1,164 | 471 |
| Other current liabilities | 3,462 | 4,573 |
| Total current liabilities | 31,727 | 35,460 |
| Long-term debt | 13,651 | 14,529 |
| Long-term deferred revenue | 175 | 322 |
| Other long-term liabilities | 7,266 | 7,236 |
| Total liabilities | 52,819 | 57,547 |
| 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; 112,037 shares issued and 111,917 shares outstanding at September 30, 2014; 110,225 shares issued and 110,105 shares outstanding at December 31, 2013 | 112 | 110 |
| Additional paid-in capital | 516,992 | 510,992 |
| Treasury stock, at cost, 120 shares at September 30, 2014 and December 31, 2013 | (1,218) | (1,218) |
| Accumulated deficit | (351,051) | (339,621) |
| Accumulated other comprehensive income | 2,889 | 5,739 |
| Total stockholders' equity | 167,724 | 176,002 |
| Total liabilities and stockholders' equity | \$ 220,543 | \$ 233,549 |

See accompanying Notes to these Consolidated Financial Statements

Table of Contents

Axcelis Technologies, Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Nine months ended September 30, | |
|--|------------------------------------|-------------|
| | 2014 | 2013 |
| Cash flows from operating activities | | |
| Net loss | \$ (11,430) | \$ (17,758) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | |
| Depreciation and amortization | 3,441 | 3,948 |
| Gain on sale of dry strip assets and intellectual property | | (1,167) |
| Deferred taxes | 434 | 272 |
| Stock-based compensation expense | 3,779 | 3,105 |
| Provision for excess and obsolete inventory | 590 | 2,451 |
| Changes in operating assets & liabilities | | |
| Accounts receivable | 6,164 | (4,359) |
| Inventories | (13,732) | 3,455 |
| Prepaid expenses and other current assets | 351 | (429) |
| Accounts payable and other current liabilities | (4,849) | 6,276 |
| Deferred revenue | 372 | (2,816) |
| Income taxes | 151 | (14) |
| Other assets and liabilities | 976 | (3,813) |
| Net cash used for operating activities | (13,753) | (10,849) |
| Cash flows from investing activities | | |
| Proceeds from sale of dry strip assets and intellectual property | | 1,200 |
| Expenditures for property, plant, and equipment | (710) | (484) |
| Increase in restricted cash | | (1,477) |
| Net cash used for investing activities | (710) | (761) |
| Cash flows from financing activities | | |
| Increase in restricted cash | | (825) |
| Financing fees and other expenses | | (473) |
| Proceeds from exercise of stock options | 2,058 | 1,113 |
| Proceeds from Employee Stock Purchase Plan | 227 | 197 |
| Proceeds from issuance of Term Loan | | 15,000 |
| Principal payments on Term Loan | (185) | |
| Net cash provided by financing activities | 2,100 | 15,012 |
| Effect of exchange rate changes on cash and cash equivalents | (1,391) | (71) |
| Net (decrease) increase in cash and cash equivalents | (13,754) | 3,331 |
| Cash and cash equivalents at beginning of period | 46,290 | 44,986 |
| Cash and cash equivalents at end of period | \$ 32,536 | \$ 48,317 |

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

Axcelis Technologies, Inc. (Axcelis or the Company) was incorporated in Delaware in 1995, and is a worldwide producer of ion implantation and other processing equipment used in the fabrication of semiconductor chips in the United States, Europe and Asia. In addition, the Company provides extensive aftermarket service and support, including spare parts, equipment upgrades, and maintenance services to the semiconductor industry.

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

The balance sheet at December 31, 2013 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, 2013.

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 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 2013 Annual Report on Form 10-K.

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

The Company recognized stock-based compensation expense of \$1.6 million and \$1.5 million for the three month periods ended September 30, 2014 and 2013, respectively. The Company recognized stock-based compensation expense of \$3.8 million and \$3.1 million for the nine month periods ended September 30, 2014 and 2013, 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.

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

In December 2012, the Company sold certain of its dry strip assets and all of its dry strip intellectual property to Lam Research Corporation (Lam). A portion of the purchase consideration (up to \$2.0 million) was contingent upon the Company achieving certain milestones. The Company recorded nil and \$1.2 million for the proceeds received based on its achievement of milestones during the three and nine months ended September 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 (loss) per share is computed by dividing income (loss) 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 (loss) 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.

Table of Contents

The components of net loss per share are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---------------------------------------|------------|------------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands, except per share data) | | | |
| Net loss attributable to common stockholders | \$ (4,704) | \$ (4,750) | \$ (11,430) | \$ (17,758) |
| Weighted average common shares outstanding used in computing basic and diluted net loss per share | 111,701 | 109,074 | 111,191 | 108,573 |
| Net loss per share Basic and Diluted | \$ (0.04) | \$ (0.04) | \$ (0.10) | \$ (0.16) |

The Company incurred net losses for the three and nine month periods ended September 30, 2014 and 2013, 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 September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-------|------------------------------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Incremental shares excluded from the calculation of net loss per share | 4,296 | 4,383 | 4,550 | 2,620 |

Note 5. Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income, net of tax, by component for the nine months ended September 30, 2014:

| | Foreign currency | Defined benefit pension plan (in thousands) | Total |
|--|---------------------|---|----------|
| Balance at December 31, 2013 | \$ 6,070 | \$ (331) | \$ 5,739 |
| Other comprehensive loss before reclassifications | (2,868) | | (2,868) |
| Amounts reclassified from accumulated other comprehensive income (1) | | 18 | 18 |
| Net current-period other comprehensive (loss) income | (2,868) | 18 | (2,850) |
| Balance at September 30, 2014 | \$ 3,202 | \$ (313) | \$ 2,889 |

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

Note 6. Inventories, net

The components of inventories are as follows:

| | September 30, 2014 | December 31, 2013 |
|------------------------------------|-----------------------|----------------------|
| | (in thousands) | |
| Raw materials | \$ 64,277 | \$ 56,942 |
| Work in process | 27,963 | 27,462 |
| Finished goods (completed systems) | 15,576 | 11,385 |
| | \$ 107,816 | \$ 95,789 |

Table of Contents

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 September 30, 2014 and December 31, 2013, inventories are stated net of inventory reserves of \$23.9 million and \$25.1 million, respectively.

During the three and nine months ended September 30, 2013, the Company recorded a charge to cost of sales of nil 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 300 mm dry strip products through September 2013. Due to changes in the forecasted sales of the Company's dry strip products that became known during the nine months ended September 30, 2013, a portion of the dry strip inventory components was determined to be non-recoverable.

During the three months and nine months ended September 30, 2014, the Company recorded a charge to cost of sales of \$0.6 million and \$1.0 million, respectively, due to production levels below normal capacity. During the three months and nine months ended September 30, 2013, the Company recorded a charge to cost of sales of \$0.1 million and \$0.6 million, respectively, due to production levels below normal capacity.

Note 7. Restructuring Charges

During 2013, the Company initiated reductions in force to control costs and improve the focus of its operations in order to achieve future profitability and conserve cash. As of December 31, 2013, less than \$0.1 million of these costs were accrued and unpaid.

During the nine months ended September 30, 2014, the Company implemented further actions which resulted in restructuring charges for severance and related costs of \$2.6 million, which included stock option modification costs of \$0.1 million recorded within additional paid-in capital in the consolidated balance sheets. The liability at September 30, 2014 of \$1.4 million is expected to be paid primarily in the fourth quarter of 2014.

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

| | (In thousands) | |
|-------------------------------|----------------|---------|
| Balance at December 31, 2013 | \$ | 43 |
| Severance and related costs | | 2,592 |
| Cash payments | | (1,226) |
| Balance at September 30, 2014 | \$ | 1,409 |

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.

Table of Contents

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

| | Nine months ended September 30, | | |
|--|------------------------------------|----------|--|
| | 2014 | 2013 | |
| | (in thousands) | | |
| Balance at January 1 (beginning of year) | \$ 1,428 | \$ 1,801 | |
| Warranties issued during the period | 1,028 | 1,401 | |
| Settlements made during the period | (1,511) | (1,107) | |
| Changes in estimate of liability for pre-existing warranties during the period | 264 | (586) | |
| Balance at September 30 (end of period) | 1,209 | \$ 1,509 | |
| Amount classified as current | 1,160 | \$ 1,461 | |
| Amount classified as long-term | 49 | 48 | |
| Total warranty liability | \$ 1,209 | \$ 1,509 | |

Note 9. Fair Value Measurements

Certain of the assets and liabilities on the Company's consolidated balance sheets are reported at their Fair Value. 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

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. The Company's term loan is carried at amortized cost which approximates fair value based on current market pricing of similar debt instruments and is categorized as level 2 within the fair value hierarchy.

Table of Contents

The following table sets forth the Company's assets and liabilities by level within the fair value hierarchy.

| | September 30, 2014 | | | Total |
|--------------------|--------------------|-------------------------|---------|-----------|
| | Level 1 | Fair Value Measurements | | |
| | | Level 2 | Level 3 | |
| | (in thousands) | | | |
| Assets | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$ 7,153 | \$ | \$ | \$ 7,153 |
| Liabilities | | | | |
| Term loan | \$ | \$ 14,815 | \$ | \$ 14,815 |

| | December 31, 2013 | | | Total |
|--------------------|-------------------|-------------------------|---------|-----------|
| | Level 1 | Fair Value Measurements | | |
| | | Level 2 | Level 3 | |
| | (in thousands) | | | |
| Assets | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$ 10,504 | \$ | \$ | \$ 10,504 |
| Liabilities | | | | |
| Term loan | \$ | \$ 15,000 | \$ | \$ 15,000 |

(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**Term Loan**

The Company has a Business Loan Agreement dated July 5, 2013 with Northern Bank & Trust Company which provides for a three year term loan of \$15.0 million secured by a mortgage on the Company's real estate in Beverly, Massachusetts. The loan bears interest at 5.5% per annum, payable monthly. Monthly repayments of principal began in August 2014 (based on a 10 year amortization schedule), and with the final principal and interest payment due on July 5, 2016. The Business Loan Agreement was amended in May 2014 to defer to September 30, 2014 the effectiveness of a covenant establishing a minimum ratio of net income to debt service expense, waiving the Company's non-compliance with that covenant at March 31, 2014. In August 2014, the Business Loan Agreement was further amended to defer to December 31, 2014 the covenant establishing a minimum ratio of net income to debt service expense. The Company was in compliance with all covenants associated with the term loan at September 30, 2014. Upon the closing of the Real Estate Sale Agreement, as further discussed in Note 15, the Company expects to pay the 2% prepayment penalty associated with the Term Loan.

Credit Facility

The Company has a revolving credit facility with Silicon Valley Bank dated October 31, 2013. Under this revolving credit facility, the Company has the ability to borrow up to \$10.0 million on a revolving basis during its two year term. The Company's ability to borrow under this line of credit is limited to 80% of the then current amount of qualified accounts receivable. On August 1, 2014, the Company and the bank entered into a Waiver and Amendment Agreement in which the bank waived the Company's non-compliance with the minimum adjusted net income covenant in the Loan Agreement at June 30, 2014 and amended the covenant for future periods. At September 30, 2014, the Company's available borrowing capacity under the credit facility was \$8.9 million. There have been no borrowings against this credit facility. The Company was in compliance with all covenants related to the credit facility at September 30, 2014.

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

Table of Contents

certain other tax jurisdictions and, as a result, does not pay significant income taxes in those jurisdictions.

As of December 31, 2013, the Company's valuation allowance related to income taxes was approximately \$147.5 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.

Note 12. Concentration of Risk

For the three months ended September 30, 2014, two customers accounted for approximately 11.0% and 10.5% of consolidated revenue. For the nine months ended September 30, 2014, two customers accounted for approximately 18.8% and 10.8% of consolidated revenue.

For the three months ended September 30, 2013, two customers accounted for approximately 19.0% and 14.5% of consolidated revenue. For the nine months ended September 30, 2013, two customers accounted for approximately 10.9% and 10.4% of consolidated revenue.

At September 30, 2014, two customers accounted for 27.1% and 14.8% of consolidated gross accounts receivable. At December 31, 2013, the Company had three customers which accounted for 23.2%, 14.2% and 13.6% of consolidated accounts receivable.

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

Effective January 1, 2014, the Company adopted Accounting Standards Update (ASU) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exist. ASU 2013-11 amended the presentation requirements of ASC 740, Income Taxes, and requires that a reserve for an unrecognized tax benefit be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. To the extent the tax benefit is not available at the reporting date under the governing tax law or if the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and not combined with deferred tax assets. The ASU became effective for annual periods, and interim periods within those years, beginning after December 15, 2013, which is fiscal 2014 for the Company. The amendments are to be applied to all unrecognized tax benefits that exist as of the effective date and may be applied retrospectively to each prior reporting period presented. The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Standards or Updates Not Yet Effective

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently assessing the potential impact of ASU No. 2014-09 on its consolidated financial statements.

Table of Contents

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 introduces an explicit requirement for management to assess if there is substantial doubt about an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. In connection with each annual and interim period, management must assess if there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date. Disclosures are required if conditions give rise to substantial doubt. ASU 2014-15 is effective for all entities in the first annual period ending after December 15, 2016. The Company expects to comply with this standard once effective.

Note 15. Subsequent Event

On October 3, 2014, the Company and Middleton Beverly Investors LLC (Middleton) entered into a Real Estate Sale Agreement (the Purchase Agreement) pursuant to which Axcelis will sell, and Middleton will buy, the Company's headquarters building in Beverly, Massachusetts (the Property), in exchange for a purchase price of \$50.0 million, payable in cash on the closing. The Company will retain ownership of approximately 23 acres of adjacent property after the closing. The Company expects that the transaction will be accounted for as a financing arrangement. As such, at the inception of the arrangement the Company will record a financing obligation in the amount of \$50.0 million and the Property will remain on its books.

Middleton's obligation to purchase the Property is subject to its satisfactory completion of due diligence regarding the Property during a 45 day period from the date of the Purchase Agreement. The closing under the Purchase Agreement is conditioned on the entry of the parties into a lease agreement pursuant to which the Company will lease the Property for a 22 year term. Under this lease, the Company will pay an annual rent of \$4.5 million for the first three years, and \$5.0 million for the fourth year, increasing 2.5% annually thereafter. The closing is also subject to other customary acquisition closing conditions. The Company is required to post a security deposit of \$5.0 million in the form of an irrevocable letter of credit at the time of the closing. At the closing, the Company expects to pay off the outstanding loan secured by a mortgage on the Property held by Northern Bank & Trust Company, including accrued interest and a 2.0% prepayment penalty. See Note 10.

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

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. Most of our cost structure does not automatically vary with changes in volume, so we must take action to align expenses to varying levels of revenue, at times incurring restructuring costs. As a result, we experience fluctuations in operating results and cash flows depending on our revenue as driven by the level of capital expenditures by semiconductor manufacturers.

After a period of gradual market improvement that began in the second quarter of 2013, we entered a market pause in the second quarter of 2014, in which customers delayed purchasing decisions. This market pause continued through the third quarter of 2014. We expect the industry to begin to improve in the fourth quarter of 2014, with improved conditions continuing into 2015. Growth may slow or accelerate from one quarter to another during this period. Our recent financial results reflect this industry pause. A successful semiconductor equipment

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

manufacturer must not only provide some of the most technically complex products manufactured in the world but must also design its business to thrive during the inevitable low points in the cycle. Accordingly, in the third quarter of 2014, we took further aggressive actions to reduce and align manufacturing and operating expense levels to our current business conditions and maintain sufficient liquidity to support operations.

Our first Purion H high current ion implanter was shipped in the second quarter of 2014, and we shipped a second

Table of Contents

Purion H high current ion implanter to another customer in the third quarter of 2014. As the industry improves in late 2014, we expect to grow system sales of our full platform of Purion products. Our expectations regarding the industry environment and our own sales are forward looking statements. Actual future results may vary from our current expectations due to a variety of economic and business factors, including industry conditions and product performance, as well as those referred to under Risk Factors in Part II, Item 1A below.

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 68.0% of total revenue for the nine months ended September 30, 2014; compared to 71.3% of revenue for the nine months ended September 30, 2013.

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 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, 2013.

Results of Operations

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

| | Three months ended | | Nine months ended | |
|---------------|--------------------|-------|-------------------|-------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenue: | | | | |
| Product | 84.0% | 87.9% | 86.9% | 86.2% |
| Services | 16.0 | 12.1 | 13.1 | 13.8 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 |

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

| | | | | |
|--|---------|--------|--------|---------|
| Cost of revenue: | | | | |
| Product | 48.9 | 56.0 | 52.4 | 54.7 |
| Services | 11.8 | 9.2 | 11.0 | 11.2 |
| Total cost of revenue | 60.7 | 65.2 | 63.4 | 65.9 |
| Gross profit | 39.3 | 34.8 | 36.6 | 34.1 |
| Operating expenses: | | | | |
| Research and development | 20.6 | 16.7 | 18.4 | 18.9 |
| Sales and marketing | 12.7 | 10.9 | 11.0 | 11.8 |
| General and administrative | 14.0 | 12.6 | 13.1 | 14.0 |
| Gain on sale of dry strip assets and intellectual property | | | | (0.9) |
| Restructuring charges | 5.9 | 0.2 | 1.9 | 1.7 |
| Total operating expenses | 53.2 | 40.4 | 44.4 | 45.5 |
| Loss from operations | (13.9) | (5.6) | (7.8) | (11.4) |
| Other income (expense): | | | | |
| Interest expense | (0.8) | (0.4) | (0.6) | (0.2) |
| Other, net | 3.5 | (2.6) | 0.9 | (0.5) |
| Total other income (expense) | 2.7 | (3.0) | 0.3 | (0.7) |
| Loss before income taxes | (11.2) | (8.6) | (7.5) | (12.1) |
| Income taxes | 1.0 | 1.1 | 0.6 | 0.8 |
| Net loss | (12.2)% | (9.7)% | (8.1)% | (12.9)% |

Table of Contents**Revenue**

The following table sets forth our revenues.

| Revenues: | | | | | | | | | | | | | | |
|-------------------------------|----|--------------|----|--------------|----|----------|---------|----|--------------|----|--------------|----|-------|--------|
| Product | \$ | 32,360 | \$ | 42,934 | \$ | (10,574) | (24.6)% | \$ | 122,170 | \$ | 118,151 | \$ | 4,019 | 3.4% |
| <i>Percentage of revenues</i> | | <i>84.0%</i> | | <i>87.9%</i> | | | | | <i>86.9%</i> | | <i>86.2%</i> | | | |
| Services | | 6,171 | | 5,897 | | 274 | 4.6% | | 18,351 | | 18,907 | | (556) | (2.9)% |
| <i>Percentage of revenues</i> | | <i>16.0%</i> | | <i>12.1%</i> | | | | | <i>13.1%</i> | | <i>13.8%</i> | | | |
| Total revenues | \$ | 38,531 | \$ | 48,831 | \$ | (10,300) | (21.1)% | \$ | 140,521 | \$ | 137,058 | \$ | 3,463 | 2.5% |

Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013*Product*

Product revenue, which includes system sales, sales of spare parts, product upgrades, and used systems was \$32.4 million, or 84.0% of revenue during the three months ended September 30, 2014, compared with \$42.9 million, or 87.9% of revenue for the three months ended September 30, 2013. The year over year decrease in product revenue is attributable to overall muted customer spending consistent with a pause in capital expenditures within the semiconductor industry.

A portion of our revenue from system sales is deferred until installation and other services related to future deliverables are performed. The total amount of deferred revenue at September 30, 2014 and December 31, 2013 was \$5.0 million and \$4.7 million, respectively. The increase was mainly due to the timing of systems sales during the three months ended September 30, 2014, 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, remained relatively flat at \$6.2 million, or 16.0 % of revenue for the three months ended September 30, 2014, compared with \$5.9 million, or 12.1% of revenue for the three months ended September 30, 2013. Service revenue fluctuates from period to period based on capacity utilization at customers' manufacturing facilities, which affects the need for equipment service.

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013

Product

Product revenue was \$122.2 million, or 86.9% of revenue for the nine months ended September 30, 2014, compared with \$118.2 million, or 86.2% of revenue for the nine months ended September 30, 2013. The increase in product revenue is attributable to improved semiconductor market spending, specifically during the first three months of 2014, which was partially offset by lower system sales during the second and third quarters of 2014.

Table of Contents

Services

Service revenue was \$18.4 million, or 13.1% of revenue for the nine months ended September 30, 2014, compared with \$18.9 million, or 13.8% of revenue for the nine months ended September 30, 2013. Although service revenue should increase with the expansion of the installed base of systems, it can fluctuate from period to period based on capacity utilization at customers' manufacturing facilities, which affects the need for equipment service. The slight decrease was primarily due to changes in the mix and timing of service contracts.

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 systems and aftermarket, as described below.

Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013

Systems

Included in total revenue of \$38.5 million during the three months ended September 30, 2014 is revenue from sales of systems of \$8.4 million, or 21.9% of total revenue, compared with \$20.2 million, or 41.4%, of total revenue for the three months ended September 30, 2013. The decrease was due primarily to the factors described above for product revenue.

Aftermarket

We refer to the business of selling spare parts, product upgrades and used systems, combined with the sale of maintenance labor and service contracts and service hours, as the aftermarket business. Included in total revenue of \$38.5 million during the three months ended September 30, 2014 is revenue from our aftermarket business of \$30.1 million, which increased by \$1.5 million compared to \$28.6 million for the three months ended September 30, 2013. 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. Aftermarket revenue can also fluctuate from period to period based on the demand for system upgrades or used tools.

Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013

Systems

Included in total revenue of \$140.5 million during the nine months ended September 30, 2014 is revenue from sale of systems of \$51.8 million, or 36.8% of total revenue, compared with \$49.6 million, or 36.2% of total revenue for the nine months ended September 30, 2013. The increase was due to higher sales of Purion systems in an improved semiconductor equipment market during the first three months of 2014, which was partially offset by lower system sales during the second and third quarters of 2014.

Aftermarket

Included in total revenue of \$140.5 million during the nine months ended September 30, 2014 is revenue from our aftermarket business of \$88.8 million, or 63.2% of total revenue, relatively flat compared to \$87.5 million, or 63.8% of total revenue for the nine months ended September 30, 2013.

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

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

| | Three months ended September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | |
|------------------------------|-------------------------------------|--------------|----------------------------|---------|------------------------------------|--------------|----------------------------|---------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % |
| (dollars in thousands) | | | | | | | | |
| Gross Profit: | | | | | | | | |
| Product | \$ 13,537 | \$ 15,595 | \$ (2,058) | (13.2)% | \$ 48,524 | \$ 43,175 | \$ 5,349 | 12.4% |
| <i>Product gross margin</i> | <i>41.8%</i> | <i>36.3%</i> | | | <i>39.7%</i> | <i>36.5%</i> | | |
| Services | 1,607 | 1,381 | 226 | 16.4% | 2,844 | 3,480 | (636) | (18.3)% |
| <i>Services gross margin</i> | <i>26.0%</i> | <i>23.4%</i> | | | <i>15.5%</i> | <i>18.4%</i> | | |
| Total gross profit | \$ 15,144 | \$ 16,976 | \$ (1,832) | (10.8)% | \$ 51,368 | \$ 46,655 | \$ 4,713 | 10.1% |
| Gross margin | 39.3% | 34.8% | | | 36.6% | 34.1% | | |

Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013*Product*

Gross profit from product revenue was 41.8% for the three months ended September 30, 2014, compared to 36.3% for the three months ended September 30, 2013. The increase in gross profit is due to a higher percentage of parts and upgrade revenue offset by lower systems sales volumes.

Services

Gross profit from service revenue was 26.0% for the three months ended September 30, 2014, compared to 23.4% for the three months ended September 30, 2013. The increase in gross profit is due to higher volumes and changes in the mix and timing of service contracts.

Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013*Product*

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Gross profit from product revenue was 39.7% for the nine months ended September 30, 2014, compared to 36.5% for the nine months ended September 30, 2013. The increase in gross profit is due to higher systems sales volumes and the related favorable absorption of fixed overhead costs, a lower provision for excess inventory, and a lower percentage of parts and upgrade revenue.

Services

Gross profit from service revenue was 15.5% for the nine months ended September 30, 2014, compared to 18.4% for the nine months ended September 30, 2013. The decrease in gross profit is due to lower volumes and changes in the mix and timing of service contracts.

Table of Contents**Operating Expenses**

The following table sets forth our operating expenses:

| | Three months ended September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | |
|--|-------------------------------------|-----------|----------------------------|----------|------------------------------------|-----------|----------------------------|--------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % |
| | (dollars in thousands) | | | | | | | |
| Research and development | \$ 7,950 | \$ 8,148 | \$ (198) | (2.4)% | \$ 26,052 | \$ 25,857 | \$ 195 | 0.8% |
| <i>Percentage of revenues</i> | 20.6% | 16.7% | | | 18.4% | 18.9% | | |
| Sales and marketing | 4,891 | 5,330 | (439) | (8.2)% | 15,404 | 16,128 | (724) | (4.5)% |
| <i>Percentage of revenues</i> | 12.7% | 10.9% | | | 11.0% | 11.8% | | |
| General and administrative | 5,380 | 6,164 | (784) | (12.7)% | 18,356 | \$ 19,165 | (809) | (4.2)% |
| <i>Percentage of revenues</i> | 14.0% | 12.6% | | | 13.1% | 14.0% | | |
| Gain on sale of dry strip assets and intellectual property | | | | % | | (1,167) | 1,167 | 100.0% |
| <i>Percentage of revenues</i> | 0.0% | 0.0% | | | % | (0.9)% | | |
| Restructuring charges | 2,288 | 112 | 2,176 | 1,942.9% | 2,648 | 2,334 | 314 | 13.5% |
| <i>Percentage of revenues</i> | 5.9% | 0.2% | | | 1.9% | 1.7% | | |
| Total operating expenses | \$ 20,509 | \$ 19,754 | \$ 755 | 3.8% | \$ 62,460 | \$ 62,317 | \$ 143 | 0.2% |
| <i>Percentage of revenues</i> | 53.2% | 40.4% | | | 44.4% | 45.5% | | |

Our operating expenses consist primarily of personnel costs, including salaries, commissions, expected incentive plan payouts, 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 \$10.5 million and \$34.9 million, or 57.6% and 58.4%, of our total operating expenses, excluding restructuring charges, for the three and nine-month periods ended September 30, 2014, respectively. For the three and nine month periods ended September 30, 2013, personnel costs were \$11.3 million and \$35.8 million, or 57.7% and 58.6%, of our total operating expenses, excluding the gain on sale of the dry strip assets and intellectual property and restructuring charges.

Research and Development

| | Three months ended September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | |
|-------------------------------|-------------------------------------|----------|----------------------------|--------|------------------------------------|-----------|----------------------------|------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % |
| | (dollars in thousands) | | | | | | | |
| Research and development | \$ 7,950 | \$ 8,148 | \$ (198) | (2.4)% | \$ 26,052 | \$ 25,857 | \$ 195 | 0.8% |
| <i>Percentage of revenues</i> | 20.6% | 16.7% | | | 18.4% | 18.9% | | |

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.

Table of Contents

Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013

Research and development expense was \$8.0 million during the three months ended September 30, 2014; relatively flat compared with \$8.1 million during the three months ended September 30, 2013.

Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013

Research and development expense was \$26.1 million during the nine months ended September 30, 2014; relatively flat compared with \$25.9 million during the nine months ended September 30, 2013.

Sales and Marketing

| | Three months ended September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | |
|------------------------|-------------------------------------|----------|----------------------------|--------|------------------------------------|-----------|----------------------------|--------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % |
| | (dollars in thousands) | | | | | | | |
| Sales and marketing | \$ 4,891 | \$ 5,330 | \$ (439) | (8.2)% | \$ 15,404 | \$ 16,128 | \$ (724) | (4.5)% |
| Percentage of revenues | 12.7% | 10.9% | | | 11.0% | 11.8% | | |

Our sales and marketing expenses are incurred primarily in the sale of our equipment and services through our direct sales force.

Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013

Sales and marketing expense was \$4.9 million during the three months ended September 30, 2014; a decrease of \$0.4 million, or 8.2%, compared with \$5.3 million during the three months ended September 30, 2013. The decrease was primarily due to lower payroll and related costs.

Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013

Sales and marketing expense was \$15.4 million during the nine months ended September 30, 2014; a decrease of \$0.7 million, or 4.5%, compared with \$16.1 million during the nine months ended September 30, 2013. The decrease was primarily driven by lower new tool evaluation and consulting costs.

General and Administrative

| | Three months ended September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | |
|-------------------------------|-------------------------------------|--------------|----------------------------|---------|------------------------------------|--------------|----------------------------|--------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % |
| | (dollars in thousands) | | | | | | | |
| General and administrative | \$ 5,380 | \$ 6,164 | \$ (784) | (12.7)% | \$ 18,356 | \$ 19,165 | \$ (809) | (4.2)% |
| <i>Percentage of revenues</i> | <i>14.0%</i> | <i>12.6%</i> | | | <i>13.1%</i> | <i>14.0%</i> | | |

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

Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013

General and administrative expense was \$5.4 million during the three months ended September 30, 2014; a decrease of \$0.8 million, or 12.7% compared with \$6.2 million during the three months ended September 30, 2013. The decrease was primarily driven by lower payroll and related costs and professional fees.

Table of ContentsNine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013

General and administrative expense was \$18.4 million during the nine months ended September 30, 2014; a decrease of \$0.8 million, or 4.2%, compared with \$19.2 million during the nine months ended September 30, 2013. The decrease was primarily driven by lower payroll and related costs.

Gain on Sale of Dry Strip Assets and Intellectual Property

| | Three months ended September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | | |
|--|-------------------------------------|-------------|----------------------------|---|------------------------------------|---------------|----------------------------|-------|--------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % | |
| | (dollars in thousands) | | | | | | | | |
| Gain on Sale of Dry Strip Assets and Intellectual Property | \$ | \$ | \$ | % | \$ | (1,167) | \$ | 1,167 | 100.0% |
| <i>Percentage of revenues</i> | <i>0.0%</i> | <i>0.0%</i> | | | <i>0.0%</i> | <i>(0.9)%</i> | | | |

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) was contingent upon our achieving certain milestones. During the three and nine-month periods ended September 30, 2013, the Company recorded nil and \$1.2 million, respectively, representing achievement for the milestones achieved. These amounts were partially offset by additional costs associated with the lab system purchased by Lam.

Restructuring Charges

| | Three months ended September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | |
|-------------------------------|-------------------------------------|-------------|----------------------------|----------|------------------------------------|-------------|----------------------------|-------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % |
| | (dollars in thousands) | | | | | | | |
| Restructuring charges | \$ 2,288 | \$ 112 | \$ 2,176 | 1,942.9% | \$ 2,648 | \$ 2,334 | \$ 314 | 13.5% |
| <i>Percentage of revenues</i> | <i>5.9%</i> | <i>0.2%</i> | | | <i>1.9%</i> | <i>1.7%</i> | | |

We continue to align our organization with market demands. 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 nine month periods ended September 30, 2014 and 2013.

Table of Contents

Other Income (Expense)

| | Three months ended September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | |
|--------------------------------|-------------------------------------|------------|----------------------------|--------|------------------------------------|----------|----------------------------|--------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % |
| | (dollars in thousands) | | | | | | | |
| Other income (expense), net | \$ 1,050 | \$ (1,442) | \$ 2,492 | 172.8% | \$ 476 | \$ (971) | \$ 1,447 | 149.0% |
| <i>Percentage of revenues</i> | 2.7% | (3.0)% | | | 0.3% | (0.7)% | | |

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, bank fees associated with our financing arrangements and interest expense related to our term loan.

The \$2.5 million increase in other income (expense) for the three month period ended September 30, 2014 compared with the three month period ended September 30, 2013, relates primarily to foreign exchange gains resulting from the strengthening of the U.S. dollar against the Euro incurred during the three month period ended September 30, 2014.

The \$1.4 million increase in other income (expense) for the nine month period ended September 30, 2014 compared with the nine month period ended September 30, 2013, was primarily due to foreign exchange gains resulting from the strengthening of the U.S. dollar against the Euro incurred during the nine month period ended September 30, 2014, which were partially offset by increased interest expense on our term loan.

During the three and nine month periods ended September 30, 2014 and 2013, 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 September 30, | | Period-to-Period Change | | Nine months ended September 30, | | Period-to-Period Change | |
|-------------------------------|-------------------------------------|--------|----------------------------|---------|------------------------------------|----------|----------------------------|---------|
| | 2014 | 2013 | \$ | % | 2014 | 2013 | \$ | % |
| | (dollars in thousands) | | | | | | | |
| Income taxes | \$ 389 | \$ 530 | \$ (141) | (26.6)% | \$ 814 | \$ 1,125 | \$ (311) | (27.6)% |
| <i>Percentage of revenues</i> | 1.0% | 1.1% | | | 0.6% | 0.8% | | |

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 jurisdictions, and, as a result, we do not currently pay significant income taxes in those jurisdictions. Additionally, we do not recognize the tax benefit for losses in the United States and certain European tax jurisdictions as we believe it is more likely than not that these benefits will not be recognized.

Liquidity and Capital Resources

Our liquidity is affected by many factors. Some of these relate specifically to our business operations, for example, the rate of sale of our products, and others relate to the uncertainties of global economies, including the availability of credit and the condition of the overall semiconductor equipment industry. Most of our cost structure does not automatically vary with changes in volume, so we must take action to align expenses to varying levels of revenue, at times incurring restructuring costs. As a result, we experience fluctuations in operating results and cash flows due to these changes.

During the nine month periods ended September 30, 2014 and 2013, the Company used \$13.8 million and \$10.8 million, respectively, of cash to support operating activities. The net cash used by operating activities during the nine months ended September 30, 2014 was predominately driven by the Company's loss from operations excluding non-cash charges for depreciation and amortization and stock based compensation, an increase in inventories and a decrease in accounts payables and other current liabilities, partially offset by a decrease in accounts receivable. In that period, net cash used for investing

Table of Contents

activities of \$0.7 million was for capital expenditures. Net cash provided by financing activities in the same period was \$2.1 million, primarily due to the exercise of stock options. These changes resulted in cash and cash equivalents at September 30, 2014 of \$32.5 million, compared to \$46.3 million at December 31, 2013.

We have a revolving credit facility with Silicon Valley Bank dated October 31, 2013. Under this revolving credit facility, we have the ability to borrow up to \$10.0 million on a revolving basis during its two year term. Our ability to borrow under this line of credit is limited to 80% of the then current amount of qualified accounts receivable. On August 1, 2014, we entered into a Waiver and Amendment Agreement in which the bank waived our non-compliance with the minimum adjusted net income covenant in the Loan Agreement at June 30, 2014 and amended the covenant for future periods. At September 30, 2014, our available borrowing capacity under the credit facility was \$8.9 million. There have been no borrowings against this credit facility. We were in compliance with all covenants related to the credit facility at September 30, 2014.

We have a Business Loan Agreement dated July 5, 2013 with Northern Bank & Trust Company which provides for a three year term loan of \$15.0 million secured by a mortgage on our real estate in Beverly, Massachusetts. The loan bears interest at 5.5% per annum, payable monthly. Monthly repayments of principal began in August 2014 (based on a ten year amortization schedule), and with the final principal and interest payment due on July 5, 2016. The Business Loan Agreement was amended in May 2014 to defer to September 30, 2014 the effectiveness of a covenant establishing a minimum ratio of net income to debt service expense, waiving our non-compliance with that covenant at March 31, 2014. In August 2014, the Business Loan Agreement was further amended to defer to December 31, 2014 the covenant establishing a minimum ratio of net income to debt service expense. We were in compliance with all covenants associated with the term loan at September 30, 2014.

On October 3, 2014, Axcelis and Middleton Beverly Investors LLC (Middleton) entered into a Real Estate Sale Agreement (the Purchase Agreement) pursuant to which Axcelis will sell, and Middleton will buy, our headquarters building in Beverly, Massachusetts (the Property), in exchange for a purchase price of \$50.0 million, payable in cash on the closing. We will retain ownership of approximately 23 acres of adjacent property after the closing. We expect that the transaction will be accounted for as a financing arrangement. As such, at the inception of the arrangement we will record a financing obligation in the amount of \$50.0 million and the Property will remain on our books.

Middleton's obligation to purchase the Property is subject to its satisfactory completion of due diligence regarding the Property during a 45 day period from the date of the Purchase Agreement. The closing under the Purchase Agreement is conditioned on the entry of the parties into a lease agreement pursuant to which we will lease the Property for a 22 year term. Under this lease, we will pay an annual rent of \$4.5 million for the first three years, and \$5.0 million for the fourth year, increasing 2.5% annually thereafter. The closing is also subject to other customary acquisition closing conditions. We are required to post a security deposit of \$5.0 million in the form of an irrevocable letter of credit at the time of the closing. At the closing, we expect to pay off the outstanding loan secured by a mortgage on the Property held by Northern Bank & Trust Company, including accrued interest and a 2% prepayment penalty.

We believe that based on our current market, revenue, expense and cash flow forecasts, our existing cash, cash equivalents and borrowing capacity will be sufficient to satisfy our anticipated cash requirements for the short and long-term. Our expectations regarding our liquidity are forward looking statements. Actual future results may vary from our current expectations due to a variety of economic and business factors, including industry conditions and product performance, as well as those referred to under Risk Factors in Part II, Item 1A below.

Commitments and Contingencies

Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Significant commitments and contingencies at September 30, 2014 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, 2013.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As of September 30, 2014, 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 ended December 31, 2013.

Table of Contents

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 September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

As of September 30, 2014, 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, 2013.

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.

Table of Contents**Item 6. Exhibits.**

The following exhibits are filed herewith:

| Exhibit No | Description |
|---------------|---|
| 2.1 | Real Estate Sale Agreement dated as of October 3, 2014 between the Company and Middleton Beverly Investors LLC. Filed herewith. |
| 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 | Letter agreement between the Company and Mary G. Puma dated July 31, 2014, modifying her Amended and Restated Employment Agreement with the Company with respect to base pay in 2014. Filed herewith. |
| 10.2 | Amendment dated August 18, 2014 to the Business Loan Agreement dated as of July 5, 2013 between the Company and Northern Bank & Trust. Filed herewith. |
| 10.3 | Waiver and First Amendment dated August 1, 2014 to the Loan and Security Agreement dated as of October 31, 2013 between the Company and Silicon Valley Bank. Filed herewith. |
| 31.1 | Certification of the Principal Executive Officer under Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act), dated November 6, 2014. Filed herewith. |
| 31.2 | Certification of the Principal Financial Officer under Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act), dated November 6, 2014. Filed herewith. |
| 32.1 | Certification of the Principal Executive Officer pursuant to Section 1350 of Chapter 63 of title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act), dated November 6, 2014. Filed herewith. |
| 32.2 | Certification of the Principal Financial Officer pursuant to Section 1350 of Chapter 63 of title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act), dated November 6, 2014. Filed herewith. |
| 101 | The following materials from the Company's Form 10-Q for the quarter ended September 30, 2014, 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). |

Table of Contents

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.

AXCELIS TECHNOLOGIES, INC.

DATED: November 6, 2014

By:

/s/ KEVIN J. BREWER

Kevin J. Brewer

Executive Vice President and Chief Financial Officer

Duly Authorized Officer and Principal Financial Officer